

COMMONWEALTH OF PENNSYLVANIA

STIMULUS OVERSIGHT COMMISSION

On the Use of Funds from the
American Recovery and Reinvestment Act

MEETING TRANSCRIPT

Thursday, December 3, 2009
Conference Room 1 - 6th Floor
Forum Place
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Mr. Ron Naples, Chief Accountability Officer
Mr. Charles Battaglia, for Senator Specter
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Mr. J. Terry Kostoff, for Senator Robert Casey
Mr. Guy Ciarrocchi, U.S. House of Republicans
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Mr. Tony Ross, United Way

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MR. NAPLES:

Okay. Good morning, everyone. I would like to welcome you to the ninth meeting, if you're counting, of our Oversight Commission. For our attendance today, we have most of the Commission Members are here. I know a couple said they might be a little bit late, and we have three members on the phone as well as some other observers on the phone. So I think we're pretty much all here and accounted for, and we'll look forward to others joining us. We've planned our meeting to 1:30 this afternoon. With some luck, we can get out of here earlier if possible. There's no reason to stay to 1:30 just for the heck of it, but we did want to make sure there was enough time to get in all the business that we had counted on getting in.

I would just remind everyone that this is a public meeting. We will allow public comments at the end if the time allows. I ask everyone to turn off their cell phone or turn it to some vibrate mode or some silent mode, if you would, please, so it doesn't interrupt the meeting. And those on the phone, I would ask to put your phones on mute unless

1 you want to speak, of course, but that way we don't
2 get distracted by any background noise.

3 As always, I'd like to start with just a
4 few words about a reminder of why we're here, which
5 basically boils down to ensuring that Pennsylvania
6 citizens get the best possible result out of the
7 millions and billions of dollars we're putting into
8 stimulus spending. That means that, one, we want to
9 review all our choices going in, and two, we want to
10 review our accountability coming out. And that's the
11 reason why at these meetings, we have regular reviews
12 of our implementation progress and our program status.

13

14 The reason for this focus is the
15 unprecedented nature of the demands of stimulus. So
16 many dollars so fast, the breadth of spending touches
17 almost every aspect of our economy and the depth of
18 spending reaches to every level of government as well
19 as local boards and agencies and authorities. As well
20 as private enterprise. So there's --- this is a broad
21 and deep program that involves many, many people on
22 many, many arms of our society and our economy.

23 And the imperative that we're trying to
24 confront is demanding. We want to do it speedily,
25 that is make an impact now, and we want to do it

1 effectively, get a return for our citizens. And the
2 challenge is always finding a balance between the
3 speed and effectiveness because you can't always get
4 the optimum of both, of course. We want to do all
5 this, plus we want to provide insight on what and how
6 we're doing. And that's the accountability and the
7 transparency aspects. The State has organized to
8 execute all this and to deal with all aspects of
9 management and accountability, whether it's selection
10 of programs or projects or project management or
11 course corrections along the way, or whether it's
12 outcome and performance measures from the kind of jobs
13 we can create to the returns we get for the money
14 we're investing.

15 The Commission's role, as we've
16 discussed, is not to do any of this. This is not a
17 management or an execution function that this body
18 has. But the Commission will review the State's
19 efforts, which they're doing actively through these
20 meetings, to ensure that it is getting done and to
21 ensure that it's getting done well. So our focus here
22 is to present to the Commission comprehensive and
23 forthcoming and timely reports of the stimulus effort
24 that we hope, one, will enable the Commission to
25 review the stimulus work in the state, and two, will

1 allow for a contribution from the Commission of advice
2 and counsel. The heart of our effort, those of us
3 working on this inside the state for the Commission,
4 is to organize information about today and to make
5 sure that we look far enough ahead that we can give
6 the Commission timely notice of things coming up so
7 that we can get their advice. It comes down to the
8 Commission knowing what the implementers know when we
9 know it, from today's flow of dollars to timely notice
10 of what's coming. So that's why we convene. And I
11 just think it's useful to keep that notion of what
12 we're here to do always top of mind.

13 In a few minutes, I'll review today's
14 agenda, which I always like to do to give people a
15 sense of what's happen --- what's coming on for the
16 day. But first I'd like to take a step back to
17 provide some context regarding Pennsylvania stimulus
18 effort, particularly in light of all the public
19 discussion and discourse we've been hearing about
20 stimulus, I'm sure in discussions with our friends or
21 certainly within the media.

22 In the last couple of Commission
23 meetings, we've talked about the required federal
24 reporting, 1512. Christian Sawyer, who has led our
25 effort, has made a number of reports to you all. We

1 reported at our October 30 meeting that our 1512
2 reports were in a day early. We beat the deadline. I
3 don't know if that was unique in the country, but it
4 certainly was unusual. And that's a testament to the
5 work that Christian and his team did. Not only did we
6 beat the deadline for federal reporting, but I think
7 it's important to note that immediately we posted all
8 of our 276 reports on our website for all to see, even
9 though these reports were not finalized and would not
10 be finalized until the end of October when the feds
11 post the reports.

12 In addition to posting all of our reports
13 immediately with transparency and with accountability
14 in mind --- we thought it was fair for our citizens to
15 see what we were up to --- we also prepared what we
16 called a citizens' update, which attempted to boil
17 down those 276 reports into a few pages summary to
18 make the figures more understandable and more readable
19 for people. So we went the extra mile to try to
20 ensure that we did, in fact, create an avenue of
21 transparency for Pennsylvania citizens.

22 Now, since the data has been out there
23 for these 1512 reports, because obviously we made them
24 and every other state in the state --- in the country
25 made those reports, there have been a lot of

1 discussion about aspects of stimulus, from jobs to the
2 cost of jobs to the phantom districts. And there's
3 been a lot of analysis of figures. Now, I can't
4 comment firsthand on the national perspective on
5 stimulus, the effort or the effect. But I can give
6 you a context regarding Pennsylvania, where I do have
7 a firsthand look at this. And I hope you'll find this
8 constructive and useful to think about how we're doing
9 in Pennsylvania. The important point I'd like to make
10 about this, though, is this is not meant in any way to
11 be defensive about what Pennsylvania is doing. Rather
12 I'd just like to step back and help you look behind
13 the figures because when you look behind the figures,
14 sometimes you get a different story than just a
15 superficial look at the numbers and counting on the
16 numbers alone.

17 As I said, the comments have ranged from
18 comments on jobs to so-called phantom reporting
19 districts. And I like to spend a few minutes on jobs,
20 but before I do, though, I'd just want to say a word
21 about these phantom districts that we've all read
22 about. There are about 14 instances in Pennsylvania
23 of stimulus flows being incorrectly reported in terms
24 of the districts in which that money was spent.
25 Recognize this is about 14 instances out of over 6,000

1 reports that were made. It involves about \$10 to \$12
2 million --- it's a little hard to nail that number
3 down specifically --- out of a statewide award level
4 of about \$4.5 billion. So it's a small percentage,
5 and it involves maybe 30 to 35 jobs out of the 7,400
6 jobs that reported --- were reported in Pennsylvania.
7 Even though it's only a small number, it's still
8 error and it's still the kind of thing that has to be
9 eliminated, not only in Pennsylvania but, of course,
10 in other states around the state (sic).

11 But I do want to point to all of you that
12 none of these errors entailed State reports, that is
13 the reports that we made through our 1512 reporting
14 team. Those reports were, as I said, not only early
15 but were very well done. So none of this phantom
16 district stuff affects reports we've made, but
17 throughout the state there were some, as I said, 14
18 instances of this. But the important point I'd like
19 to make about these errors is these are errors in
20 reporting districts, for whatever reasons --- it's
21 hard to track down exactly what their reasons are ---
22 they're outside the responsibility and accountability
23 of the folks doing this for the state. These reside
24 in local recipients rather than in money that's coming
25 through the state. And most importantly, this is not

1 money that disappeared; it was money that was actually
2 spent on projects. So the district may have been
3 misreported, but the money was put to a legitimate
4 use. And that after all, is the critical factor when
5 we think about how the money was utilized.

6 So yes, there is work to be done on the
7 accuracy of reports around the country, to be sure.
8 And in Pennsylvania, there is also, although our error
9 rate is pretty low in the state. We don't have ---
10 we, in the state directly, don't have responsibility
11 for these other reporting entities, but we will be
12 doing what we can to be helpful to them so that we can
13 help their performance level point in the right
14 direction.

15 What I'd like to spend a few more minutes
16 on, though, is jobs, because this is very fertile
17 ground for any analysis. You can use any number you
18 want, and we've seen a lot of analysis and seen many
19 different comments on the number of jobs, the cost per
20 job or the rate at which jobs are being created. We
21 already, in this group, have talked about how jobs are
22 calculated. And Jim talked about that last time.
23 Christian has talked about how we did it in 1512. And
24 I'm not going to reprise any of that, so take a deep
25 breath and I won't go through that again with you.

1 But I just still wanted to say that it's still not
2 consistent around the country. That makes comparisons
3 difficult, and it makes reporting difficult. When I
4 say not consistent around the country, different
5 states have interpreted the federal guidance in
6 different ways and are, therefore, ended up reporting
7 the jobs in different ways. And of course, when that
8 happens it's hard to make direct comparisons. So I
9 know that OMB is actively working on trying to clarify
10 that, but it is still a problem.

11 But even if you take the numbers at face
12 value, don't argue about what are the numbers, just
13 take them at face value, how does Pennsylvania stack
14 up? Pennsylvania is number 27 on the list of states
15 in terms of the number of jobs created. We've created
16 7,427 jobs, 3,516 came from our --- from monies
17 passing through the state that we control.
18 Twenty-seven (27), that's kind of the middle of the
19 pack, not bad but not good, average. But let's look a
20 little more closely at that to get a better sense of
21 how we really did in a more comparative universe, if
22 you will. More than half of the jobs reported
23 nationally were in the top ten states. In those top
24 ten states, 70 percent of the jobs that were reported
25 were education related. Forty-five (45) percent of

1 the jobs in those states were due to the state fiscal
2 stabilization funding. In Pennsylvania, we only had
3 15 percent of our total jobs education related, and
4 indeed, we had no jobs related to state fiscal
5 stabilization funding, primarily because, as you're
6 all aware, of the budget debate that was going on at
7 the time.

8 So that our basic comparison is different
9 from the kind of reporting that many other states did,
10 and it makes a dramatic effect. For instance, if one
11 takes out of the Pennsylvania reporting education-
12 related jobs, because we did have some, as I said 15
13 percent of our total, and you take it out of the
14 reporting of all other states in these top ten,
15 Pennsylvania goes from number 27 in the country to
16 number 10 in the country in terms of jobs created. So
17 you can see that one factor makes a big, big
18 difference in how our performance could be perceived.

19 And again, it's a matter of looking behind the
20 numbers. If you just looked at the numbers and said
21 number 27, that doesn't sound so good. If you try to
22 make it a more direct comparison and look at our
23 ranking among the top ten and say we're tenth in the
24 country, that's a much better looking result.

25 The same analysis could be done on a

1 dimension such as there were reports that Pennsylvania
2 was dead last in the country in jobs per population or
3 jobs per workforce. Well, it's the same point, if you
4 make the same kind of adjusted comparisons along the
5 way that I just talked about regarding the number of
6 jobs, you end up with a result that if you take
7 education out, Pennsylvania is not dead last. It is,
8 in fact, in the middle of the pack on the jobs per
9 population.

10 The same kind of variables apply to
11 calculations we've read about jobs per dollar. These
12 figures can go from hundreds of thousands of dollars
13 per job to tens of thousands of dollars per jobs. And
14 just the fact that it can vary so widely suggest the
15 statistical problem. It depends a great deal on the
16 figures one uses, whether you're using funds awarded
17 or funds received, both of which are reported in the
18 1512 reports.

19 The important point about this is not
20 only do the figures vary widely, but neither gets at
21 it very well. Neither is a very accurate figure
22 because dollar awards before spending mean lower jobs,
23 and that's what happens when you're looking at the
24 funds awarded. And funding after spending means
25 higher jobs, and that's what happens when you look at

1 the funds received. So neither one of these provides
2 an accurate picture, and they also don't consider the
3 aspect in terms of the kind of spending that's being
4 done, what's the capital intensity of the spending or
5 what's the labor intensity of the spending. Whether
6 it's a labor-intensive job or a capital-intensive job,
7 particular where infrastructure is concerned, they're
8 both creating assets, but they're creating them in
9 different ways that would have different results if
10 you look at them at jobs alone. So jobs is only one
11 aspect of what we're doing in stimulus. And in
12 Pennsylvania, as I tried to explain, I think our
13 performance, when you look behind the numbers,
14 presents a better picture than if you just look at the
15 top line numbers.

16 So one way that we like to think about
17 stimulus here in the state is as an investment that
18 earns an adequate return, a return good enough to
19 provide improvement today and promise for tomorrow.
20 We want to create assets that will be contributing
21 returns long after the spending has ended. These are
22 returns from physical infrastructure kinds of
23 projects, whether it be roads and bridges or water
24 projects or energy projects, to the kinds of education
25 spending we can do that would improve the --- our

1 human capital assets going forward, make students much
2 better prepared to be productive folks in the
3 workforce.

4 So our focus is on productive current
5 spending and smart long-term investments. And if we
6 think about stimulus funding on those dimensions,
7 rather than simply just looking at the statistics, I
8 think that's the way we can stay focused on what can
9 we really get that's important out a stimulus.

10 So I hope that gives you at least some
11 context for the kind of results you've been reading
12 about and the kind of stories you've been reading
13 about, what stimulus is or is not doing. Again, no
14 comment on the country at large. I don't have the
15 perspective of which to provide that. But in
16 Pennsylvania, I think that you can see that the
17 adjusted performance numbers, taking out the points of
18 comparison that are different, provide a different
19 result than a top line look at it.

20 Okay. Just a few comments about our
21 agenda today. Jim will be providing an implementation
22 report as he has done every meeting, Jim Creedon, the
23 Chief Implementation Officer. We have a number of
24 presentations today. The folks on the Commission got
25 all of these presentations ahead of time. One on

1 Women's --- Minority, Women's, Veterans and Small
2 Business Enterprise, an update from Jim. The
3 Secretary of Education, Gerald Zahorchak, is here to
4 provide an education update. One of the other items
5 that we have on the agenda today is a program on the
6 ARRA bonds. We've had several questions from the
7 Commission about the bonds, how they work, what are
8 they, and we'll try to give you a picture of that
9 today. We have someone from the U.S. Treasury, John
10 Cross, is here, as well as three individuals from the
11 Pennsylvania Administration to talk about different
12 aspects of the ARRA bonds program. We'll also hear
13 about the strategic plan for the Pennsylvania Health
14 Information Exchange. Phil Magistro, who is a deputy
15 director of program implementation, is here to talk
16 about that. And then Eileen McNulty, who is the
17 deputy accountability officer, will talk about our
18 performance reports plans, our efforts to figure out a
19 way to measure and report on outcomes, and I'll say
20 another word about that when Eileen --- just before
21 Eileen is to begin.

22 Two standard items that we always report
23 on. One is the --- any reports of the hotline I
24 report to you. Then my report, the report I receive
25 from the Inspector General, said there were no reports

1 of any kind on the hotline since the last Commission
2 meeting. Also we have talked about reporting on Buy
3 American. There are no reports of any Buy American
4 waiver activity.

5 So I think that covers all the
6 introductory items. And with that, I'll turn to Jim
7 for the implementation report.

8 SECRETARY CREEDON:

9 Thank you, Ron. I think you all have a
10 copy of the presentation. I'll begin with --- you
11 have your ARRA expenditure status report in the very
12 front of the presentation. That is as of November the
13 19th, 2009. Again, going down each category of ARRA
14 by our traditional In Progress, Already Spent Total
15 Investment, and then Total Anticipated Investment,
16 showing our total investment to date is about \$5.2
17 billion with about \$3.5 billion already spent and \$1.7
18 in progress, for the total of \$5.2.

19 Let me go through a couple key areas.
20 Transportation and infrastructure, one we talk about
21 at just about every meeting. We are now at about \$925
22 million obligated, about 90 percent. The last report
23 we were at about \$902 million. 279 of 293 projects
24 have open bids. Many of you have been tracking the
25 numbers know that we started at about 242 projects.

1 Because of the savings that we achieved on the first,
2 the second and now will be a third round of projects,
3 we're now tracking 293 ARRA-funded projects in the
4 Department of Transportation. And 270 of those 279
5 have their notice to proceed, 202 have started work,
6 and 57 projects are already complete, up from about 23
7 when we met in October. Thirty-three (33) additional
8 projects were certified November the 20th for our new
9 --- I'm sorry, our new project total now that you'll
10 see starting next meeting will be 326 after this
11 report. And we've included a list of those projects
12 in your packet.

13 Keep in mind that we are following the
14 policy that the Governor and the Secretary of
15 Transportation put into effect that money saved in a
16 MPO or in a region, let's say, stays in that region.
17 PennDOT reported at the end of October about 5,886
18 jobs created were sustained through the month of
19 October, up from about 5,777 the last time we met.
20 The November numbers come in around the 10th or 12th
21 of December, and we'll give you that update, then, in
22 January.

23 And I also wanted to give you some --- an
24 area we haven't spent a lot of time talking about, the
25 Rural Transit Program. About \$343 million has been

1 obligated just about 100 percent of that money now has
2 been obligated, which means that a lot of those
3 projects are clearly at the point now they'll start
4 ready to roll.

5 Our other major infrastructure investment
6 area is in the PennVest area, the Clean Water and the
7 Drinking Water. Eighty-eight (88) of the 118 projects
8 we're tracking for ARRA have settled, which means the
9 communities have come in and signed all their
10 contracts, and they're now have the green light to go
11 out and start construction. Eighty-five (85) projects
12 have already started. We're now reporting, based on
13 the new closings, about 4,400 jobs created through
14 these projects. Last time we met, we were at about
15 3,800. And the Congressional House Infrastructure and
16 Transportation Committee, you may have heard the term
17 the Oberstar Report --- Chairman Oberstar does a
18 report every month on how all the states are doing ---
19 has now ranked Pennsylvania eighth nationally in terms
20 of the speed in which we are implementing ARRA funding
21 for clean water projects. So it's just a measure
22 we've been using to track how we're doing relative to
23 some other states.

24 In the area of energy, the PA
25 Conservation Works! Program, this is what I think in

1 the beginning we were calling the Small Communities
2 Program. Ninety-nine (99) projects in 48 counties
3 were awarded funds to conserve or reduce energy use.
4 Of the \$23 million dollars, \$15.3 was awarded to local
5 governments and \$7 million to nonprofit organizations,
6 such as hospitals, colleges and other nonprofits.
7 These grants could not exceed \$250,000 as an
8 individual grant unless there was a combined regional
9 project, in which point we had a cap of \$500,000. And
10 you should also have a handout today which lists, by
11 county, and includes a description of the various
12 projects. And I encourage you to take a look at that.
13 I think that what you'll see there is some very
14 creative projects and the very types of projects that
15 the ARRA funds are designed to achieve. In some
16 communities, the installation of high efficiency
17 lighting and street lights or in stop lights. In
18 others, it's hospitals looking to some do more work in
19 solar or in creative energy uses. And as I said,
20 there are \$250,000 to a high of \$500,000 spread across
21 almost 99 projects. So we now have another 99
22 projects, which from the implementation perspective
23 working with our partners at DEP, we're now tracking
24 on a biweekly basis to make sure the contracts are
25 getting signed, the requirements are being met and

1 that we're getting progress delivering these projects.

2

3 Very quickly, I'll walk you through the
4 other areas of the state energy plan. All of these
5 areas are --- yes, Senator?

6 SENATOR WAUGH:

7 Do you want us to stop you if we have a
8 question?

9 SECRETARY CREEDON:

10 Sure, no problem.

11 SENATOR WAUGH:

12 On the 99 projects for Conservation
13 Works!, I looked through that list. I'm curious what
14 the 99 represents in terms of the total applications
15 received.

16 SECRETARY CREEDON:

17 I knew that's what you were going to ask
18 me, and I don't remember. I have that number, though,
19 and I can get it to you. And maybe before the
20 meeting's over, Bev can get ahold of DEP and get that
21 number for us.

22 SENATOR WAUGH:

23 Thank you. The underlying question there
24 is --- I guess I'm a little --- I thought there'd be
25 more of a response to this. It seems to me that these

1 types of, you know, replacing HVA systems and lighting
2 and whatnot are pretty commonsensical things that a
3 lot of, especially municipalities, would be doing and
4 now that they have the opportunity to make application
5 and receive assistance in doing it, they'd really be
6 jumping on it. I'm not saying this is --- I'm just
7 surprised. I thought there would be a little more.

8 SECRETARY CREEDON:

9 Well, keep in mind the number of
10 municipalities and counties in the Commonwealth get
11 funding directly from the Department of Energy. So
12 you have to pull out, I'd say almost half the counties
13 already and a large number of the --- or larger
14 municipalities who will receive it directly who
15 wouldn't be eligible to apply. And in a lot of cases,
16 in the case of, you know, smaller governments, you
17 know, they face some of the same challenges as far as
18 grant applications or matching funds and, you know,
19 putting their projects together. But we'll get you
20 the numbers on how many total. We had a good
21 response. They were not easy decisions. There was
22 criteria that was used based on energy saved,
23 kilowatts of energy saved, dollars saved, matching
24 dollars. We really --- we funded a couple of really
25 good regional, where two or three municipalities got

1 together. So this is a whole mix. But we'll see ---
2 before the end of the meeting, we'll try to get that
3 data together for you.

4 MS. MYERS:

5 Excuse me.

6 SECRETARY CREEDON:

7 DEP is here.

8 MS. MYERS:

9 The Senator is correct ---.

10 MR. NAPLES:

11 Would you come up to the microphone,
12 please, if you want to say something.

13 SECRETARY CREEDON:

14 I forgot Cathy was here. I'm sorry.

15 MS. MYERS:

16 The Senator is correct in ---.

17 MR. NAPLES:

18 Identify yourself, too, Cathy.

19 MS. MYERS:

20 Cathy Curran Myers, special assistant for
21 ARRA for the Department of Environmental Protection.
22 Both Senator Waugh and Secretary Creedon are correct;
23 this was very enthusiastically embraced by many
24 communities. We had over 500 applications. We had
25 450 that were deemed eligible applications. So it was

1 very tough decisions. And with the money we had, we
2 limited it to that \$250,000 so we could spread it out,
3 but that's only --- that's how far that money would
4 stretch.

5 SENATOR WAUGH:

6 Okay. Thank you.

7 SECRETARY CREEDON:

8 I didn't think we'd get it that fast for
9 you, but I'm glad that worked out. I'm not sure I can
10 always do that on all the questions.

11 MR. NAPLES:

12 Yeah, but you didn't, Jim. Cathy did.

13 SECRETARY CREEDON:

14 That's true. Moving to the other areas
15 of the state energy plan, all of these are the areas
16 that we've talked about, I think, going back into
17 April. Combined Heat and Power, the application
18 period closed on October the 9th. Thirty-three (33)
19 applications were received, totaling approximately \$33
20 million in requests. We've got about \$11 million to
21 spend there. And DEP tells me that their final
22 reviews should be within the next several days, if not
23 within the next week. So we're very close to
24 finalizing the Combined Heat and Power grants and I'm
25 pretty certain we'll have a report for you on that at

1 the January meeting.

2 The Biogas applications, 20 applications
3 received, totaling about \$27 million in requests with
4 only \$5 million to award currently under review by
5 DEP.

6 Solar round I. We'll have a Solar Round
7 II in the springtime. Application period closed in
8 November. Twenty (20) applications received totaling
9 approximately \$24 million, again, for only \$7 million
10 in funding. And wind application period for the Wind
11 Program, about \$19 million will open up in just a few
12 weeks. We're going over the final set of guidelines
13 now to make sure we've got that right.

14 The other areas of the environmental
15 programs, I believe it was our last meeting, if not,
16 it was the first meeting in October, we had a
17 presentation on the Appliance Rebate Program. The
18 Department of Energy has approved our --- has now
19 --- your handout says that we're expecting it this
20 month. This week we got it, so we have now had the
21 Appliance Rebate Program approved. And we are
22 reviewing a draft RFP for the manager of that program,
23 the entity that will actually manage the placement of
24 the rebates, the management of the rebates.

25 The interesting part about this is that

1 typically, you know, we go and we all get our cell
2 phone, our new cell phone, and we get a rebate and you
3 mail it in and two, three weeks later you get your
4 rebate. In this --- in that situation there's, in a
5 sense, unlimited funds, and so the company does not
6 have to monitor, do we have enough based on this
7 purchase to make this rebate. In the case of this
8 program, we only have limited funds, so one of the key
9 things that the manager of this program is going to
10 have to do is make sure that if an individual goes in
11 to buy that HVAC system, that they're able to go into
12 a system and lock in a reserve number. And then when
13 we run out of money, those reserve numbers are no
14 longer given out. So that's something we want to make
15 sure the manager has the capability to do. So there
16 will be --- we really don't --- we probably won't roll
17 this out until the early part of 2010 because we want
18 to make sure we've got this management system in place
19 and working right before we roll it out to the public.

20 One we haven't talked an awful lot about,
21 the Leaking Underground Storage Tank Program, really
22 an enhancement of what we already do. Twenty (20) of
23 the 71 projects have already started throughout the
24 state. And I'll talk a little bit more about that when
25 we --- when I talk of the MBE/WBE Program. And two of

1 the 17 ARRA-funded PEDA projects are already complete.
2 These are ones that we talked about with the
3 Commission back in the springtime. They were ---
4 they're called mined projects, ones that we had had in
5 the queue. Two of those have now been completed.

6 Weatherization, a big area for us, the
7 implantation side, spending a lot of time on this.
8 Forty-one (41) of the 43 agencies' contracts are
9 executed and 41 agencies have received their funding
10 and have started work. So we're now gone beyond the
11 planning stage and into the tracking production stage
12 with these various agencies. 552 homes have
13 weatherization in progress, and 34 homes have already
14 been weatherized. And as far as the training and the
15 additional training centers, the required MOUs between
16 L&I and DCED are now in place so that we can make sure
17 that the training needs of the weatherization agencies
18 are being matched up with the providers throughout the
19 state,. And I believe it was our last meeting,
20 Secretary Vito went over the process with you and
21 where those different training centers are going to
22 be.

23 Competitive applications due. We've got
24 a couple here, the national map through DCNR and few
25 other ones, a couple in education, one in the

1 Department of Health where their applications were due
2 just earlier this week or this week. The next slide
3 shows you our applications made and awarded. And the
4 one I will point out is the very first one on page 11,
5 DPW combined with the Pennsylvania Department of
6 Education for the Early Headstart expansion. We were
7 awarded a \$1.1 million ARRA competitive grant for that
8 program. And we were actually one of the only states
9 in the country to apply for and receive these funds.
10 So we'll be getting that up and running and monitoring
11 that over the next several months as well. So that's
12 the conclusion of my implementation report for this
13 month.

14 MR. NAPLES:

15 Thank you, Jim. Any other questions that
16 Jim might address? Charlie?

17 MR. BATTAGLIA:

18 do you expect to receive some word on our
19 application for the InterCity Passenger Rail? Do we
20 know that?

21 SECRETARY CREEDON:

22 We don't know. I've had our biweekly
23 meeting with PennDOT yesterday. We were talking about
24 that and also the interstate highway competitive. And
25 they had some early questions on our application and

1 it's been radio silence over really the last 30 to 45
2 days, so we're not hearing anything.

3 MR. BATTAGLIA:

4 Okay.

5 MR. NAPLES:

6 Anything else? Okay. Great. Thanks a
7 lot, Jim. The next item, as I mentioned, is the ---
8 an update on the Minority, Women's, Veteran's and
9 Small Business Enterprises efforts. And that's ---.

10 MR. WALSH:

11 I'm going to use some slides on this one.

12 MR. NAPLES:

13 And that's --- Jim Wash will do that, and
14 we'll turn to some slides.

15 SECRETARY CREEDON:

16 One of the topics that we've touched on
17 at meetings, and I've spent some time at outreach
18 meetings or with community groups, is talking about
19 the area of small and disadvantaged business
20 participation and ARRA. And I wanted to walk you
21 through kind of some fundamentals of this, give you
22 some results and talk a little bit about some
23 activities that are planned to enhance this effort.

24 First some background. The Act itself
25 makes no direct provisions for participating of small

1 or disadvantaged businesses. The decisions on how to
2 manage this program are really left to the
3 administering federal agency or if that federal agency
4 has no program in place, then for the state
5 administering agency to apply their own requirements
6 or guidelines or to develop their own programs. Some
7 federal administering agencies have provided guidance.
8 The Federal Highway Administration for years now has
9 had an active MBE/WBE program. It's something we have
10 been using in the State of Pennsylvania for a long
11 time now. And they have certainly been probably the
12 major area where the guidance was clear and the
13 program could be implemented quickly. The
14 Environmental Protection Agency, which would apply to
15 the PennVest funding also has had a program in place,
16 and we've actually enhanced that a little bit here in
17 Pennsylvania. And the Department of Energy has
18 provided us some guidance, and the Department of
19 Housing and Urban Development has also provided
20 guidance, primarily through the CDBG Program.

21 Most of the supplies to the local
22 communities who directly receive CDBG but for, I think
23 it's about \$23 million that we received for our use
24 for CDBG Programs, we utilized the Housing and Urban
25 Developments MBE/WBE guidance. The U.S. Department of

1 Commerce has also developed --- has tasked its
2 Minority Business Development Agency with assisting
3 all the states in their efforts on ARRA opportunities
4 to minority-and-women-owned businesses. We've been in
5 touch with them. I think I've had several phone
6 calls. Tomorrow we're doing a conference call with
7 them to talk about our efforts here in Pennsylvania
8 and how they can become more involved in our efforts.

9

10 What about the Commonwealth strategy
11 given that as a background? The first decision that
12 we made was that we would utilize existing federal
13 program requirements where they were applicable. And
14 this was important for us to do as it related to
15 PennDOT and PennVest because we knew that those were
16 going to be the first projects that really started
17 rolling out across the Commonwealth. And so the
18 advantage was that we had existing processes in place
19 that we could apply to make sure that we were asking
20 for minority-and-women-owned business participation in
21 those areas.

22 Our next strategy was to expand the
23 current state program to cover the other funding
24 streams and also to include veteran-owned businesses
25 and small business in our outreach efforts. And we

1 wanted to build off our existing best practices and
2 success, which are really driven by aspirational goals
3 and by outreach. Keep in mind, and I think I've said
4 this at a couple at Commission meetings, we do not
5 have the ability here in Pennsylvania to say you must
6 have 20, 15, 10 percent, 5 percent participation in
7 order for your bid to be eligible. What we normally
8 do is we look for you to provide the outreach, to
9 provide a level of participation and if it is an RFP
10 process as opposed to competitive bid process, to
11 actually give you a scoring based on your levels of
12 participation. So some may be familiar with some
13 cities or some larger communities. And I think I've
14 mentioned to the Commission in the past, my experience
15 in the private sector, I was used to going in to do
16 work in the city and it would be like you will have
17 these levels of participation. That statutory
18 authorization or authority does not exist here in
19 Pennsylvania.

20 Our key total is going to be the
21 executive order of 2009-02, which was titled Creating
22 Opportunities for Small Disadvantaged Businesses in
23 the Expenditure of Funds. It establishes an overall
24 Commonwealth aspirational goal of at least ten percent
25 of ARRA funds to go to small, disadvantaged businesses

1 as contractors, subcontractors, grantees, subgrantees
2 and suppliers. It requires several agencies to
3 participate in outreach efforts, to encourage and
4 increase small and disadvantaged business interest and
5 participation. Those in particular are obviously DGS,
6 which has the role now within in the Commonwealth, but
7 also expanding that to include Department of Community
8 and Economic Development, the Department of Labor and
9 Industry, and also Department of Military and
10 Veteran's Affairs. It also directs agencies to track
11 and report participation in ARRA opportunities. We
12 have always been tracking, particularly in the area of
13 PennDOT projects or in DGS Public Works, MBE/WBE
14 participation. DGS procurement or statewide
15 procurement, we have a fairly active tracking process
16 that we use. But when we went out and we do state
17 grants or we do other state spending, we really won't
18 do a lot of tracking.

19 So this is going to be a new effort for
20 us on the ARRA side to make sure that the agencies are
21 tracking this and getting reports back. And Ron has
22 talked to you and Christian's talked to you about the
23 1512 report. We are making this as essential to our
24 grantees or our recipients of reporting jobs that
25 they're also reporting for us, first of all, their

1 activities on what they're doing to make sure they get
2 participation, but then what their results are at the
3 beginning, what they're projected to be and then
4 looking at it on a bimonthly basis of how they're
5 doing along the way.

6 Let me go over some of the things we've
7 done in outreach. It's interesting. As we put this
8 slide together, I realized there's probably a lot more
9 that we've done along the way. We have an e-mail
10 update system to all the certified MBE/WBEs in our
11 Bureau of Minority and Women Owned Business
12 Opportunities regarding any ARRA fundings or for that
13 matter, state-funded opportunities. We participated
14 in business-to-business events in Philadelphia,
15 Harrisburg. Pittsburgh, I believe, will be tomorrow,
16 although I did an earlier program in Pittsburgh back,
17 I believe, in June. And partnering with the Minority
18 Business of MBDA's regional support, which is the
19 Philadelphia Minority Business Enterprise Center, who
20 I see a couple folks from there actually joined us
21 here today. And in being our partner in making the
22 matches that are necessary. All of the agencies are
23 required to have outreach events to grantees and
24 contractors. We are coordinating now with DCED to
25 include the small business outreach through the Small

1 Business Development Centers and are coordinating with
2 Department of Labor and Industry, interestingly, on
3 our veteran-owned business outreach.

4 We are also going to be rolling out in
5 probably about the next 24 to 48 hours a new section
6 of our website, which will be devoted to small,
7 disadvantaged businesses. It's called Opportunities.
8 It will be a source for small businesses, minority-
9 owned businesses, women-owned businesses, veterans'
10 businesses, to go to our website and be able to drill
11 down very quickly to what are the opportunities to do
12 business that we are aware of. They'll have access to
13 identified agency point persons for stimulus to answer
14 questions. And we've also designated an ARRA team of
15 personnel within DGS to assist MBEs and WBEs if
16 there's assistance needed beyond the webpage or some
17 of the
18 business-to-business sessions that we will do.

19 Part of the challenge is that in a way
20 for MBE/WBE or VBs or small business, the clear and
21 direct opportunities through PennDOT and through
22 PennVest --- while the PennDOT projects continue to
23 grow in number and provide opportunity and the
24 PennVest projects are out there, the rest of the
25 opportunities out there are going to require some

1 assistance in helping businesses mine opportunities
2 because now we're getting into energy grants that may
3 be made to company. I had talked about the 99
4 projects that were awarded to a number of
5 municipalities and a number of nonprofits. Each of
6 those are going to be required to report to us on what
7 they've done to have MBE/WBE participation. What it
8 also means is we need let minority-and-women-owned
9 businesses and small businesses in those areas know
10 that that opportunity does exist, and do our very best
11 to match them up with that opportunity, the timing of
12 the bids. And so we've developed a new effort to as
13 much as possible get out that information, and so that
14 that timing information is available or at least
15 provide people with the resources to come and ask some
16 questions. And I mentioned --- this is the 99 I
17 mentioned is the Conservation Works! Programs, the
18 research grants to universities which were made
19 directly by the federal government. We don't touch,
20 we can't put our requirements on; however, we want to
21 make that information available to minority-and women-
22 owned businesses. While we may not be able to go and
23 require there to be that outreach, if they see there's
24 an opportunity that's there, they can go and they can
25 market, they can sell directly to those universities

1 or to other nonprofits who may have received direct
2 money.

3 Another area where we're trying to make
4 these links is with housing authorities, who are doing
5 a lot of work around the state, not only in
6 construction but also in technology upgrades, to make
7 sure that people know what those opportunities are
8 going to be.

9 The next big task we're going to have is
10 on the area of education opportunities. Over 500
11 school districts and charter schools are going to be
12 receiving funds. They'll be coming through
13 Pennsylvania, and we're going to be letting them know
14 about our executive order. But from --- I guess this
15 is where I switch from the governmental side to kind
16 of looking at this from a business side. There's
17 going to be tremendous business opportunities in each
18 of these school districts for small businesses. So
19 what we'll be doing is doing our best working with PDE
20 as the school districts get that money to have a
21 database or a databank for people to go and see what's
22 Dauphin County School District using this for, what's
23 the Northampton County or Northampton School District
24 using it, what's the Parkland School District using
25 this money for. It may not even offer opportunities,

1 but at least people will be able to see it, tap into
2 it and perhaps go and bid on something or become part
3 of a team that is bidding on something. But keep in
4 mind these are 500 very diverse --- Secretary
5 Zahorchak is here. He'll probably talk about the
6 diversity that we'll see in this spending across the
7 various school districts. So it will require, you
8 know, some hard work on our part, but also for those
9 people who want to do business with those school
10 districts, really isolating opportunities and really
11 digging in and seeing what those opportunities are.

12 Let me give you some examples of some of
13 the things agencies have already done. And I'm going
14 to start with PennDOT, who again was our first ones
15 out of the gate and continue at projects all the time.

16 Early on they met with the Association of
17 Pennsylvania Contractors and the American Council of
18 Engineering Companies to make sure they understood
19 that they were expecting to see certified MBE firms on
20 their projects, that that was going to be an early
21 commitment from us. They continue to provide
22 assistance in certifying, bidding as prime contractors
23 and engaging as subcontractors. They have circulated
24 the listing of all the PennDOT ARRA projects to over
25 800 DBE firms in the PennDOT system and continue to

1 communicate information.

2 What have the results been to date? Of
3 the \$781 million of ARRA funds awarded, about \$44
4 million have already been awarded to DBE firms, about
5 5.7 percent. To date, three ARRA contracts have been
6 awarded to DBE prime contractors, which is something
7 that we want to see grow and be encouraged. That is
8 not just in the subcontractor role. What we're
9 starting to see subcontractors become prime
10 contractors. And while the number is low, you know,
11 we're making progress. These are three of those being
12 awarded to a DBE prime contractor worth about \$2
13 million.

14 In the area of the Clean Water Act, we
15 collaborated early on with the Legislative Black
16 Caucus and MBDA for outreach events, I think, in about
17 seven areas across the state. PennVest through DEP
18 has taken some efforts to strengthen their
19 requirements and to put a lot more attention on
20 requiring --- as I mentioned, there was 188 projects
21 that have gone out to municipalities throughout the
22 Commonwealth. Some of those municipalities,
23 Philadelphia, Pittsburgh, the larger cities, already
24 have MBE/WBE Programs. So this is rather --- it's old
25 ground for them. But a lot of the communities who

1 have received the funding in the past knew they had to
2 ask their contractor to do some outreach, but perhaps
3 they hadn't really ask what they did or what their
4 results were. So now we're out into all 118 of those
5 communities saying we want to see the outreach that
6 you've done, you've got to meet these requirements, we
7 want to see what your results have been, we want to
8 monitor that. And as we meet with PennVest on a
9 biweekly basis, we're actually getting reports back on
10 each of the projects as far as progress that we are
11 making.

12 Let me give you some example of so far,
13 and I don't have any tracking data for how we do on
14 normal PennVest projects, but I will tell you when I
15 saw this, I think we're making some pretty significant
16 progress on the ARRA side given the size of some of
17 these projects. \$8.9 million has already been awarded
18 to MBE/WBE prime contractors in the area of water and
19 wastewater. And about 2.36 million has been awarded
20 to subcontractors in those areas. And keep in mind, in
21 a lot of cases, these are in very small communities
22 across the Commonwealth. And a couple of the big
23 projects in Pittsburgh and Philadelphia have yet to go
24 to bid. So you'll see --- certainly in those areas,
25 you'll see some significant numbers. But to me, while

1 the numbers --- if you look at them compared to \$157,
2 about only \$9 million seems low --- From my
3 experience here for seven years in dealing with these
4 issues, this is a pretty significant hit early on in
5 the process for us, particularly in the area of prime
6 contractors.

7 What's our next steps? We'll be
8 continuing to do outreach and participation in funding
9 in all grant streams. We're going to be promoting
10 opportunities for businesses to make the most of the
11 complex system. A lot of the questions that are
12 coming in now are, you know, how can we get lists of
13 what housing authorities are going to do, how can we
14 get lists of what airports are going to do with their
15 money. So we can get that out there on that
16 Opportunities page, out there to outreach events, out
17 there on a one-to-one contact basis with businesses so
18 they can go chase down that business and get ---
19 either bid or be part of teams that are bidding.

20 We're going to be focusing on providing
21 information for non-Commonwealth opportunities
22 wherever possible. Ron and his team, particularly
23 Eileen McNulty and Tammie Klinger, have really stepped
24 up their efforts to identify money that's not coming
25 to the Commonwealth, that's coming in directly from

1 the Department of Energy to universities, to
2 hospitals, to other local governments, so that we
3 have, as best we can, a comprehensive database of what
4 that funding is going to be made aware of. Again, so
5 businesses can take a look at that and say, I'm here
6 in Altoona, I'm a window installer, I see that the
7 city got some money to put new windows in. When's
8 that bid coming out? I want to bid on that. And
9 we're going to try to almost be a --- I often kid
10 around with the team, it's like we're going to be a
11 Match.com here if we do this right. But hopefully
12 they'll be good matches and successful matches that
13 work out.

14 And then we also have a role to monitor
15 and track continued progress. This is --- you know,
16 we're tracking jobs, we'll have the same management
17 systems in place to track our results coming up though
18 the MBE/WBE area as well.

19 So I'll stop there and see if there's any
20 questions from members of the Commission. Yes, Tony?

21 MR. ROSS:

22 First, Secretary, I want to thank you and
23 Ron for taking the time to put this on the agenda.
24 It's a very important issue for me and a lot of
25 people. Just a couple of quick questions or

1 suggestions. Going back to sort of the non-state
2 entities, the universities and those types folks.
3 Would it be possible to not only get information about
4 opportunity, but maybe even utilizing some of your
5 resources to provide them maybe some technical
6 assistance? Because I think some of these entities
7 may not be particularly expert in getting minority ---
8 it's not just getting their opportunities, but it also
9 may be helping them with best practices, lessons
10 learned with the DGS staff, you know, those things, I
11 think, that would be really helpful.

12 SECRETARY CREEDON:

13 To open the door, we're trying to,
14 hopefully in the next several weeks, be able to get
15 out a copy of the executive order to whoever we know
16 got some money. Now, it can't be you shall ---

17 MR. ROSS:

18 Right.

19 SECRETARY CREEDON:

20 --- because the federal government is the
21 one who would say you shall. But hopefully, you know,
22 a note from the Governor saying, this is what we're
23 trying to do here in Pennsylvania and indicating that
24 they should feel free to contact us if they haven't
25 done it before. And as much as can help them with

1 some language or give them some ideas on how they can
2 do this.

3 MR. ROSS:

4 Great. In terms of the data, just for my
5 edification and anybody in the public who may not
6 know, can you tell us what DBE is in Pennsylvania?
7 And can you break down, like, the five percent, how
8 much of it is women, veteran, persons of color?

9 SECRETARY CREEDON:

10 It's right there in my notebook that I
11 left sitting next to you what those breakouts were.
12 We don't have any data on veteran yet here in
13 Pennsylvania. I mean, speaking broadly from
14 Pennsylvania, we don't track veteran business
15 participation. This will be new for the ARRA Program.
16 And we don't track necessarily small business, but in
17 order to be a DBE in Pennsylvania, you are by default
18 a small business. I can tell you overall in
19 Pennsylvania, right now we are at about 8.5 percent
20 across all of our spend, which is procurement, public
21 works, non-ARRA. So that's where we've been. We like
22 to be at around ten. We've gotten as high as 12. But
23 the last --- I think the last quarter, we were about
24 8.5 percent.

25 MR. ROSS:

1 Just two last points, and I know this
2 will also impact rural areas. Is there anywhere in
3 the stimulus, any requirements, that there's
4 participation by geography, so that X amount of
5 activity has to be done by people who live in a
6 certain community?

7 SECRETARY CREEDON:

8 No.

9 MR. ROSS:

10 Okay. So there's nothing like that?

11 SECRETARY CREEDON:

12 No, nothing like that at all.

13 MR. ROSS:

14 Okay. And the only other thing I would
15 add is, as you know, the Small Business Administration
16 which I did see listed as done a really good job.

17 SECRETARY CREEDON:

18 Yes.

19 MR. ROSS:

20 Anybody who's interested should really
21 reach out to the SBA. They do a really good job.

22 SECRETARY CREEDON:

23 I know you attended a couple of those. I
24 attended a couple of their sessions around the state,
25 too. They've been very active in working with small

1 businesses. And I think, you know, we're going to be
2 looking to make a few more alliances, particularly
3 with the entrepreneurial center down in Philadelphia,
4 to continue to help us with this match --- I should
5 come up with a better term, the PennsylvaniaMatch.com,
6 that we're trying to do to get people real live
7 opportunities to go after as opposed to just tracking
8 things but not really showing people where they can go
9 get the opportunity.

10 MR. ROSS:

11 Thank you.

12 MR. BATTAGLIA:

13 Mr. Secretary, if you're interested in
14 getting those figures on small --- excuse me,
15 veteran-owned businesses, I do know that the
16 Department of Veteran's Affairs tracks that, and they
17 can probably give you a ready figure on that thing by
18 state.

19 SECRETARY CREEDON:

20 We've got to ramp up some outreach to
21 veteran's-owned businesses. We may need some help
22 from you in getting some of that data.

23 MR. BATTAGLIA:

24 I'll be glad to help you on that. And
25 you talk about dedicating ten percent of the overall

1 amount of money being received here for stimulus here.
2 Are you really talking a billion dollars going to
3 small businesses?

4 SECRETARY CREEDON:

5 We're not dedicating that billion dollars
6 and saying it has to go to small business. What we're
7 saying is that we're setting an aspirational goal that
8 what we want to see by the time we're done that across
9 all the areas that --- and really one of the terms we
10 use is what's called affected spend. So for example,
11 we can't ---- we have to pull out the \$4 million
12 dollars in FMAP or the Medicaid Reimbursement from our
13 number. But at the end we total all of our PennDOT
14 spending, all of our PennVest spending, all of our
15 energy spending, all of our healthcare, IT spending,
16 all the areas where we could affect some --- that we'd
17 like to see that whatever that number is times ten
18 percent went to MBE, WBE, LBEs or small businesses.

19 MR. BATTAGLIA:

20 Oh, you're not able to put on a dollar
21 figure at this point?

22 SECRETARY CREEDON:

23 At this time, you can't really do that.
24 See where we end up with all the spend. And again,
25 it's an aspirational goal. It's not that in that bid

1 there has to be ten percent. But we found that if you
2 don't have number, that mark, people really don't have
3 a guidance of where they're supposed to go and they
4 don't have an idea of whether they're doing poorly or
5 they're doing well.

6 Any other questions, Commission?

7 MR. NAPLES:

8 No other questions from Commission
9 members? Thanks, Jim.

10 SECRETARY CREEDON:

11 Thank you.

12 MR. NAPLES:

13 Appreciate it. Next presentation will be
14 an education update. Secretary Gerald Zahorchak from
15 the Department of Education is here to do that.
16 Secretary of Education? And like any good teacher,
17 he's decided to do it in a different way than we've
18 been doing it. So be my guest.

19 MR. ZAHORCHAK:

20 Oh, thanks very much, Ron. Thank you,
21 everybody. I thought there was no stimulus money for
22 chiropractors and I want to save the backs of this
23 part of the audience, so thanks.

24 I've been a superintendent and a
25 federal programs coordinator in school districts for a

1 long time, and this is probably the most intense we've
2 ever been about being transparent and being into the
3 minutia with reporting because of this initiative. So
4 I think in a lot of ways, the public is well served
5 already, just because of the expectations. And in
6 Phase II, those expectations even ratchet up more as
7 we go down the expenditures and outside the school
8 arenas to subcontractors.

9 Jim mentioned the diversity of our
10 schools. We have \$1.8, but in terms of these funds,
11 we have 700 LEAs or recipients, including the charter
12 schools, including some of our intermediate units. In
13 the schools, we have several counties that operate as
14 one school district. I think of Forest Area when I
15 think of those types, which has about 4,000 square
16 miles to transport students around and relatively
17 smaller number of students than the average as
18 compared. And you think of Potter County, the Austin
19 School District has about 200 students in one
20 building,
21 pre-k through 12 and operates the same way as our
22 largest school district, Philadelphia, that has over
23 180,000, where one in ten students in the Commonwealth
24 attend school. So it is a diverse group, the average
25 being about 3,200 students.

1 The first slide that you'll see is a
2 summary of the funds of the ARRA education funds that
3 will come into Pennsylvania and its schools. And I'm
4 going to go through each one of those that are listed
5 as the summary, starting with the State Fiscal
6 Stabilization Funds. You see we received a total of
7 \$1.6 billion. This chart provides information about
8 the largest part of the grant, and that is the State
9 Fiscal Stabilization, \$1.56 billion in total. So
10 let's review the allocation of these funds in
11 Pennsylvania for the fiscal year 2010 as determined in
12 the final budget.

13 What we've done with these funds, we've
14 increased basic education subsidy, the amount that
15 goes to all schools through a subsidy formula, by \$300
16 million. So where we were last year, for '09, we've
17 increased that by \$300. We restored a reduction of
18 state funding with \$355 million. So \$655 million of
19 this money was used for basic subsidies. We restored
20 higher education with \$63 million for '08/'09 and \$93
21 million for the '09/'10 year. And we've begun
22 distributing these funds based on these allocations as
23 determined in the final '09/'10 budget. It's
24 important to note that our SF funds come from the
25 federal government in two phases. Phase I application

1 was approved on November 2nd, and it released \$1.04
2 billion dollars in SF funds to Pennsylvania. Phase II
3 application is due January 11th, 2009, and upon
4 approval the balance of \$514 million will be released.

5 This slide is the IDEA funds. Some
6 people call these --- well, this is the Individuals
7 with Disabilities Education Act, special education
8 funding from the federal government. This is for \$127
9 million there in addition to normal special education
10 IDEA funds that come into Pennsylvania. In
11 Pennsylvania, we use the Intermediate Units as the
12 pass-through, and then the school districts that
13 belong to particular intermediates, 1 of 2
14 intermediates --- districts that belong to that
15 intermediate would allocate those funds in a pass-
16 through mechanism that they've created for the state
17 for a long time. IDEA began receiving allocations of
18 \$390 million in school-aged IUs funds following
19 legislative approval on August 5th, 2009 of the bridge
20 budget. And then on November 3rd, \$69.8 million has
21 been distributed to intermediate units to be passed
22 through to the LEAs. These funds also include \$14
23 million in early intervention school-aged programs.
24 Children ages three and four before coming to school
25 with disabilities are served with those funds. The EI

1 funds started going out on October 15th. To date,
2 \$6,115,464 have been distributed through EI.

3 The next slide are the Title I funds.
4 Again, this is \$398 million in addition to the normal
5 allocation of non-ARRA Title I funds that schools
6 receive. Funds are to provide educational services to
7 the economically disadvantaged children. Title I
8 funds are paid directly to school districts and
9 charter schools. Schools began receiving their Title
10 I funds August 5th, the bridge budget. An additional
11 \$121 million in Title I School Improvement Grants will
12 be eligible --- will be available to eligible entities
13 upon finalization of guidelines from the federal
14 government, which is expected at the beginning of the
15 new calendar year. States and districts have to use
16 their Title I School Improvement Grants to implement
17 significant reforms and transform chronologically
18 (sic) low-performing schools into performers. These
19 will be competitive grants throughout Pennsylvania.
20 And they'll be aligned with another competitive
21 program, The Race to the Top, which the state is
22 competing for.

23 The next slide is the Title II D. These
24 are technology grants. And in Pennsylvania, there's
25 \$25 million of the non-ARRA Title II D funds. And

1 what we're doing with these funds, since the state was
2 not funding Classrooms for the Future, we are able to
3 pick it up through the federal grant. Applications
4 are --- the competitive grant process is set up,
5 applications are --- forwarded funds were released
6 December 1st, 2009. Proposals are due January 15th.

7 Another area is the Food Service
8 Equipment Grants. Total amount is \$2.8 million. The
9 funds are to purchase equipment to ensure quality
10 meals are served. These grants are competitive. They
11 are, first of all, awarded only to school districts
12 that participate in the National School Lunch Program,
13 which are most of our districts. Recipients were
14 chosen based on need determined by the percentage of
15 free and reduced lunch counts, proposed equipment that
16 they were to purchase, energy efficiency was expected
17 and the extent that their purchases could be related
18 to improving the economy. 130 schools in 40 districts
19 were awarded grants to purchase equipment like ovens
20 and refrigerators and dishwashers. As of November
21 20th, the amount dispersed through this grant is
22 \$1,810,403.46.

23 The ARRA funds for education of the
24 homeless, the amount is \$1.8 million. It builds on
25 the grants for homeless education funds that go out to

1 eight regional projects in Pennsylvania under the
2 McKinney-Vento Act. These services for the homeless
3 or sheltered children are for after-school programs,
4 transportation to and from school-related events,
5 tutoring, purchasing supplies for their homeless
6 program.

7 The next one is Qualified Zone Academy
8 Bonds and Qualified School Construction Bonds. You're
9 going to hear much more detail from Mike Walsh from my
10 office on this program.

11 Next is a slide that you see titled the
12 Section 1512 Reporting. You will be receiving a
13 complete report on the ARRA Section 1512 reporting
14 from the Office of Administration. I'd like to take
15 the opportunity to share with you a few highlights
16 related on reporting on educational funds. Education
17 for the initial reporting period ending September 30th
18 involved only four funding streams that are listed
19 there, since these were the only funds that have been
20 disbursed since --- by September 30th. In light of
21 the fact that PDE has over 700 sub-recipients from
22 which we gather data, this was a good thing. Soon
23 we'll be adding SF funding and as well Title II and
24 Title I School Improvement Funds to this reporting.

25 Here on this slide, you see many ways

1 that we'll be able to compete. The most salient one
2 listed is Race to the Top. Race to the Top is a very
3 competitive grant application that will focus on the
4 Secretary of Education and the President's goals for
5 education. You'll see the rest of them listed. I'm
6 going to go through a couple of them starting with
7 Race to the Top.

8 We're hoping to approve standards and
9 assessments in the alignment to curriculum and
10 teaching and tutoring; improve our data systems that
11 is well underway in Pennsylvania and expand it to
12 early child, the workforce and post-secondary
13 education; create more mechanisms for supporting the
14 capacity of teachers and principals to be leaders in
15 their district; and then to focus on turning around
16 the lowest achieving school in our state. We really
17 believe we're in good position. The grant says you
18 have to be good, first of all, to be even eligible.
19 And then you have to prove that you would really break
20 the ceiling with your initiatives. We think we'll be
21 in good shape. \$200 to \$400 million could come back
22 to our state to be used over a probably what becomes a
23 three-year period. In Phase I --- there are two
24 phases. Phase I will be due in January. We've been
25 working hard. We have staff and grants from others

1 who have allowed us to bring consultants to work hard
2 at nothing but this. And we probably have seven
3 full-time people, hundreds of superintendents, many
4 folks from the education associations and our state
5 legislature actively engaged in preparing for this
6 very competitive grant.

7 The Statewide Longitudinal Data System is
8 just about to be submitted. The total amount to be
9 distributed by the federal government is \$250 million.
10 We submitted our application --- or just are about to
11 submit our application this week. We're submitting
12 for \$14 million to improve our Pennsylvania
13 information Management System known as PIMS, and
14 again, we're expanding that to preschool programs as
15 well as post-secondary and the workplace.

16 The next is the Teacher Incentive Fund.
17 There's a \$200 million award additional funding for
18 this program, which originally started in 2006. This
19 award is given to states or partnerships through a
20 competitive process to improve the performance of our
21 teachers and principals. Application details for this
22 next phase have not been released.

23 The next one is Investing in Innovation,
24 the i3. This is a school district response. They're
25 not expecting states to apply, but school districts.

1 And we're actively engaging school districts to think
2 about this. They have to partner with money-
3 producing, private entities and nonprofits or
4 nonprofits as well as others. We will be engaged in
5 some of these as a state, and we think that many of
6 our schools can produce award-winning grants for
7 innovation, innovation like what the Google president
8 said at the G20 Summit. If you teach ninth graders
9 one thing, teach them how to do the engineering of
10 gaming. And those kind of things are called out
11 specifically by the President and his cabinet members
12 when talking about these particular innovation funds.

13

14 Teacher Quality Enhancement Partnerships,
15 \$100 million. We've been submitting a state-level
16 application not selected in the first round that was
17 awarded. We hope that we'll be selected in future
18 rounds, but as well some of this intersects with our
19 Race to the Top application as we go forward.

20 Our next steps, on December 4th, we are
21 submitting our Longitudinal Data Grant. In December
22 and January, we'll continue our distribution of the
23 ARRA funds in Title I, IDEA, Fiscal Stabilization and
24 the technology grants. January 5th, the 1512
25 reporting for quarter ending December 31st. The 11th

1 of January is the submission of our Phase II
2 application, and January 19th is the deadline for the
3 submission of our Race to the Top.

4 I'd be happy to take your questions if
5 you have any. And I appreciate the opportunity to
6 present in front of you.

7 MR. WALSH:

8 Thank you, Mr. Chairman. Thank you, Mr.
9 Secretary. It's good to see you. On the Title II D
10 funds for technology, you mentioned that this is a
11 100-percent competitive program, hoping to reach out
12 and provide some assistance where Classrooms of the
13 Future was eliminated. My question is how will the
14 competitive applications be assessed with regard to
15 districts that have already implanted Classrooms of
16 the Future technologies and versus those who have not
17 started yet?

18 MR. ZAHORCHAK:

19 That's a good question. And let me say
20 it two ways. One is for all the districts that have
21 been successful in competing for and getting
22 Classrooms for the Future money, which is most of our
23 high schools, are very, very --- the large majority of
24 our high schools, they will still be able to get from
25 us, with federal support, support for their regional

1 coaches, support for their members that are
2 --- personnel inside that are leading the execution of
3 Classrooms for the Future on the ground. So that will
4 continue. Our highest priority for these competitive
5 grants would be, then, in this situation, for those
6 school districts that have not yet received Classroom
7 for the Future investment so that they can have the
8 technologies, the whiteboards, the laptops for the
9 core subject areas and then as well the training that
10 goes along with that.

11 MR. WALSH:

12 Okay. Thank you. My second
13 question, ---

14 MR. NAPLES:

15 Sure.

16 MR. WALSH:

17 --- Mr. Chairman, has to do with the
18 Qualified Zone Academy Bonds and the Qualified School
19 Construction Bonds. You mentioned that Mr. Walsh is
20 going to be talking more about that, so if you'd like
21 I can wait and ask questions then. But ---.

22 MR. ZAHORCHAK:

23 I think that would be a good idea.
24 However, if you --- yes.

25 MR. NAPLES:

1 Brian, did you want to ask?

2 REPRESENTATIVE ELLIS:

3 Yes. Thank you. Thank you, Mr.
4 Secretary. Just a couple real quick things. When you
5 were talking about the appropriation of the State
6 Fiscal Stabilization Funds, the slide we had
7 represented about \$800 million out of the \$1.04
8 billion. How do we account for the other \$200
9 million? How was that spent?

10 MR. ZAHORCHAK:

11 Next year.

12 REPRESENTATIVE ELLIS:

13 Okay.

14 MR. ZAHORCHAK:

15 We'll be distributing it next year.

16 REPRESENTATIVE ELLIS:

17 We'll be spending it next year, okay.

18 And then as far as the Title I School Improvement
19 Funds, it said the reform is to transform chronically
20 low-performing schools. How many school districts
21 right now fit that categorization in Pennsylvania out
22 of the 501?

23 MR. ZAHORCHAK:

24 Well, these are going to be targeting
25 school buildings.

1 REPRESENTATIVE ELLIS:

2 Okay.

3 MR. ZAHORCHAK:

4 Probably 35 of our districts have maybe a
5 150 school buildings that will be in the competition
6 as our highest priority. But there's a group right
7 below that list that would be a high priority. Should
8 they not be able to compete and be successful at the
9 highest level, we'd be coming down the list. And
10 these are significant dollars for those buildings that
11 will intersect well with Race to the Top. So one of
12 the criteria that we'll use, a criterion will be, are
13 you going to meet the necessary expectations to be a
14 partner in Race to the Top.

15 REPRESENTATIVE ELLIS:

16 Okay. Now, are the school districts
17 applying for that or is it a coordinated effort
18 through the Department to apply for that?

19 MR. ZAHORCHAK:

20 The Department will receive those funds
21 and we know the amount that we'll receive on School
22 Improvement.

23 REPRESENTATIVE ELLIS:

24 Okay.

25 MR. ZAHORCHAK:

1 And the school districts will then apply
2 through the Department and our peer-review process
3 that we have for looking at the competitive nature.
4 And they'll have a rubric upfront of what's the
5 expectation. They can pretty much score themselves.
6 And if all are successful at the highest priority ---
7 as I said, it's significant funds --- it will deplete
8 a lot of the School Improvement monies. But school
9 districts still have an opportunity, all school
10 districts at various priority levels, to participate
11 with us in the Race to the Top. So everybody's going
12 to benefit should we win. Race to the Top is an
13 application that we, as a state, submits to the
14 Department.

15 REPRESENTATIVE ELLIS:

16 Okay. And then my final question on the
17 application for the Teacher Quality Enhancement, you
18 said it was denied the first time we applied. Did the
19 federal government give you guidance and say, this is
20 what we were looking for and we didn't --- you know,
21 so that we feel more comfortable that we're going to
22 get it this time?

23 MR. ZAHORCHAK:

24 Yeah, we feel pretty comfortable we're
25 making good efforts. We think we have a good grant

1 that met most of their expectations. And again, the
2 technical assistance has been good.

3 REPRESENTATIVE ELLIS:

4 Okay. Thank you very much.

5 MR. ROSS:

6 Good to see you, Mr. Secretary. I want
7 to go back to Race to the Top. I've had occasion to
8 visit with some school districts, in particular
9 Pottstown, I spent some time with. And one of the
10 concerns they had, and I hear this from a lot of
11 entities, is there sort of a minimum or scale? You
12 know, should they apply for this on their own, or is
13 it better to go collaboratively because, you know,
14 people are saying do they want to expend resources
15 going for a grant and if they're not at scale, if
16 their request is too small, they'd rather not do that.
17 So just from your --- I don't know if you have any
18 sense is it better for --- their question to me was is
19 it better for them to collaborate with other districts
20 in Montgomery County to try to access these dollars or
21 is it --- you know, what advice would you give to
22 them?

23 MR. ZAHORCHAK:

24 Yeah, the quickest thing is to answer the
25 question they're not eligible to apply alone or even

1 with a consortium. The state is the eligible grantee.
2 So on the Race, we would say to them --- and they'll
3 be --- they've been receiving a lot of information
4 from us. Tomorrow, they'll be receiving a letter from
5 me with really specific details on their expectations.
6 They've been hearing it, getting closer to
7 understanding it. We've been working one-on-one with
8 lots of school districts but in groups and at large.
9 Tomorrow, every district superintendent, LEA
10 representative will receive my memo that spells it out
11 in all detail.

12 Now, on the innovation grants, we're not
13 eligible to apply, they are. I would say, off the
14 cuff, the bigger they look and the bolder they look
15 and the more realistic they look, the better their
16 chance. But they should know the rubric, and they
17 will because this Department now has been really clear
18 on how they score things. So they'll know the scoring
19 rubric. They should think about, do we do this with
20 just us? They'll have to have a private partner or a
21 nonprofit. But they'd look bigger if all of a sudden
22 everyone in their intermediate district would say,
23 here's the number of students this is going to impact
24 because we're applying as a consortium. My advice,
25 there would probably be no extra points for that, but

1 the sentiment that this has impact that's already
2 going towards scale might help. We'd be happy at the
3 Department, through Beth and I and others, to provide
4 any technical assistance that we can while they're
5 making applications. We want them to win.

6 MS. OLANOFF:

7 I just wanted to let you know that the
8 TEAM PA Foundation is hosting a conference about the
9 i3. It's on December 16th. All superintendents have
10 been invited --- I can share that information with you
11 --- which time, they'll hear more information about it
12 and can actually network with other districts about
13 putting together the consortia that Doctor Z
14 described.

15 MR. NAPLES:

16 Beth would you identify yourself for the
17 record, please?

18 MS. OLANOFF:

19 I'm sorry. Beth Olanoff, Director of
20 Policy, Department of Education.

21 MR. NAPLES:

22 Okay. Thanks.

23 MR. ROSS:

24 Just one last question, given the
25 presentation we had from Secretary Creedon --- and I

1 know all 501 districts are very different. You know,
2 it's one thing to tell people to go talk to their
3 school leadership. If folks wanted to try to access
4 opportunities with districts, what would you say to
5 them? Is it the superintendents? Is it the school
6 boards? What advice would you give people who might
7 want to access opportunities with the district?

8 MR. ZAHORCHAK:

9 If I were in the community, the advice I
10 would give is start with the superintendent of schools
11 as the chief operating --- or the chief executive of
12 the school.

13 MR. NAPLES:

14 Any other points of interest from the
15 Commission members? Thank you very much, Secretary
16 Zahorchak.

17 MR. ZAHORCHAK:

18 Thank you very much.

19 MR. NAPLES:

20 I appreciate it. And this was not the
21 last thing we'll hear about education, I'm sure, as we
22 head through this stimulus activity. The next item on
23 our agenda is discussion of the ARRA Bond Program. We
24 had planned to begin this with a presentation by John
25 Cross from the U.S. Treasury, but as one might say of

1 some federal folks, he's lost in the building. So
2 we're actually tracking him down to try to help him
3 through the maze. So I trust he will be here shortly.
4 But in the meantime, there's no sense of wasting time
5 because John can tell us about the treasury
6 perspective, but there is a Pennsylvania element of
7 the bond program. So I'd like to begin with that, if
8 we might. And John, are you prepared to take up that
9 issue?

10 MR. BLAKE:

11 Yeah.

12 MR. NAPLES:

13 Why don't we begin with John Blake, who
14 is the Executive Deputy Secretary of the Department of
15 Community and Economic Development. John will be one
16 of three presenters from inside the state, and we will
17 let Mr. Cross make his presentation when he arrives.

18 MR. BLAKE:

19 Okay. Thank you.

20 MR. NAPLES:

21 Thanks for being willing to pinch hit
22 early, John.

23 MR. BLAKE:

24 Thank you, Mr. Chairman. I appreciate
25 the opportunity to be here. Ladies and gentlemen,

1 good afternoon. I'm John Blake, I'm second in command
2 at DCED and I'm glad to have the opportunity to
3 present before the Commission. A couple of caveats
4 before I begin my remarks, and I'll try to get through
5 this with some brevity.

6 The Recovery Zone Bonds, there's a couple
7 of summary points I'd like to give you about the
8 Recovery Zone Bonds. The first caveat I'd like to
9 give you is that this --- there are three different
10 facilities that will involve the Department of
11 Community and Economic Development. More
12 specifically, it will involve our Center for Private
13 Finance, and even more specifically than that, it will
14 involve the Pennsylvania Economic Development
15 Financing Authority, PEDFA, which will be the command
16 structure, if you will, for participation. That's the
17 first thing I want to share with you. The second
18 thing is that we have not yet issued bonds or funded
19 projects under these facilities. Part of that has to
20 do with the need for additional guidance from Treasury
21 and questions that still prevail by bond council and by
22 legal counsel for corporations who would like to take
23 advantage of these facilities. And I'm sure we're
24 going to hear from Treasury today answers to some of
25 those questions. But keep in mind that we've been in

1 the planning stage on this. There are several
2 facilities I'll talk about and that there is an
3 allocation that we're going to try to hopefully be
4 able to take advantage of in 2010.

5 The first thing I'd like to tell you
6 about our General Recovery Zone information. The
7 allocation for Recovery Zone Bonds nationally was
8 given to stats and broken down to the counties within
9 those states based upon employment declines in 2008.
10 And a recovery zone must be designated at the local
11 level.

12 MR. NAPLES:

13 John, I'm just going to interrupt for a
14 moment.

15 MR. BLAKE:

16 Sure.

17 MR. NAPLES:

18 I notice that the presentation that we
19 have on the screen is organized with education first.
20 So --- okay. Here you go.

21 MR. BLAKE:

22 Oh, wait.

23 MR. NAPLES:

24 Go back a little more.

25 MR. BLAKE:

1 There we go.

2 MR. BLAKE:

3 The recovery zone must be established
4 locally by resolution of the local governing body. It
5 must have basic demographic and economic attributes on
6 employment, poverty rate, foreclosure, general
7 distress and a federally designated impoverished zone
8 or a rural community would qualify or distress due to
9 a military base closure. An adoption of the
10 resolution establishes a zone. Allocation recipients
11 can designate that zone.

12 And one very key important point, and
13 I'll talk about this a little bit more, is that
14 allocation recipients, volume cap recipients, can
15 voluntary waive their allocation back to the state.
16 And what that means essentially is that the
17 allocation, here in this case for the Commonwealth of
18 Pennsylvania for the facility bonds, \$231 million in
19 allocation that was allocated to the counties, in
20 those circumstances where counties either don't have
21 the --- aren't equipped to take advantage of those
22 facilities, they have the option at their discretion
23 to allocate that allocation --- their share of that
24 allocation it back to the Commonwealth, back to PEDFA,
25 and then we can re-allocate for eligible projects

1 throughout the state in 2010. There are \$10 billion
2 in facility bonds.

3 As you can see here, the Economic
4 Development Finance Authority will issue the bonds.
5 And it's scheduled to be part of the pool of bonding
6 issues that will occur in 2010, in April, July and
7 December. We did actually issue correspondence out to
8 the County Commissioners throughout the state to let
9 them know that they have the option. If they don't
10 think that there's an opportunity for them to take
11 advantage of it, if they're not in position to take
12 advantage of these facilities, to correct meaningful
13 projects, we'd like to offer the capacity of PEDFA.
14 And our due diligence capacity is to leave this bond
15 facility to eligible projects throughout the state,
16 but they have to formally allocate their allocations
17 back.

18 I should tell you, the allocations
19 throughout the state for the Economic Development
20 Bonds and Facility Bonds, based on the demographic
21 data that drove the allocation to our counties, there
22 are six counties that have less than \$500,000 in
23 allocation. There's actually four counties throughout
24 the state that have no allocation for the Facility
25 Bonds. Under the Economic Development Zone Bonds ---

1 the Economic Recovery Bonds, there's seven counties
2 that have less than \$500,000 allocation, four counties
3 with no allocation at all. So we're hopeful that
4 counties will take heed of our appeal if they can
5 revert their allocation back to PEDFA sometime next
6 year, we can correct those allocations and redeploy
7 those resources into other communities.

8 Again, this is the --- the Facility
9 Bonds, I'll talk to you a little bit about what the
10 Facility Bonds can do. They can fund the following
11 permitted uses: property that was constructed,
12 reconstructed, renovated or acquired after the
13 designation of the zone that includes new
14 construction, renovation of existing buildings, new
15 equipment, new equipment --- can be used for equipment
16 transferred into a recovery zone. We can finance the
17 acquisition of existing buildings with substantial
18 rehabilitation. These Facility Bonds will also fund
19 up to ten percent of a Bond Reserve Fund, two percent
20 of the cost of issuance. They cannot finance land
21 purchase, and they cannot finance residential rental
22 facilities. There are, again, for these particular
23 facilities \$15 billion nationally. Our allocation is
24 \$231 million. And we will hopefully be able to deploy
25 this too with our partners in 2010.

1 The Economic Development Bonds, a
2 different category of bonds, but again ARRA Recovery
3 Zone Bonds. This particular program involves \$10
4 billion allocated nationally. Our state allocation is
5 \$154 million. As you can see here, we have to issue
6 it between now and January of 2011. These facilities,
7 we're working with an underwriter on a strategy for
8 issuing these bonds. We have not issued any of these
9 facility bonds, as I noted earlier, but we do see some
10 opportunities cropping up from our partners, both in
11 local government, the IDAs, the IDCs, as well as in
12 the private business community and private corporate
13 citizens who would like to take advantage of this
14 facility. This is, again, a circumstance where we
15 might have an opportunity for the allocation from the
16 counties to come back to us to redeploy to eligible
17 projects going forward.

18 The last element of DCED's involvement in
19 the ARRA bonds involve Qualified Energy Conservation
20 Bonds. Again, you can see the state allocation \$129
21 million for these facilities. Issue again before
22 January of 2011. So it will be activity that we do in
23 2010.

24 The other thing I would like to tell you
25 here, and of the collaborations I think we have is

1 with DGS. Secretary Creedon certainly knows this.
2 The third bullet point down, we have the opportunity
3 to use these facilities to do some of the investment
4 associated with the Guaranteed Energy Savings Act.
5 For those of you on the Commission who may not be
6 familiar with this, it has to do with meeting public
7 or private institutional players throughout the state
8 who have the opportunity to borrow to make energy
9 conservation upgrades to their facilities. Those
10 energy conservation upgrades essentially result in a
11 definitive, guaranteed energy savings costs. And
12 those savings, those incremental savings essentially
13 take care of debt service going forward. So we hope
14 there's an opportunity for us to collaborate with DGS
15 on this facility. Again, we've been in touch with our
16 local distributing partners throughout the state, the
17 IDA, the IDCs and the local government officials to
18 let them know of their allocation in hopes that we can
19 take advantage of it.

20 The long and short, just in summary, for
21 DCED, PEDFA, the Pennsylvania Economic Development
22 Financing Authority, will be the structure and the
23 authority that we'll depend upon relative to our
24 taking advantage of the allocation here in
25 Pennsylvania and trying to move these facilities to

1 eligible projects throughout the state. And we're
2 hopeful that our collaboration with the counties will
3 lead to some reversion of allocation that we can
4 redeploy for those eligible projects and make it
5 possible to bring the capacity of the state to bear
6 where it's not very robust locally.

7 And I'm open to questions, Mr. Chairman.

8 MR. NAPLES:

9 Thank you, John. Are there any questions
10 for Secretary Blake?

11 MR. BLAKE:

12 Thank you, ladies and gentlemen,

13 MR. NAPLES:

14 Okay. Thank you, John. I appreciate it.
15 I think we'll just continue with the state
16 presentations so we can get through this, and then
17 we'll turn to Mr. Cross who I presume has just
18 arrived, whom I have not met, so welcome, Mr. Cross.
19 Mike? Mike Walsh is the Deputy Secretary of
20 Administration with the Department of Education. And
21 he'll give us some insight on the education piece of
22 this.

23 MR. WALSH:

24 Thank you very much. There are two bond
25 programs that we would like to talk about this morning

1 that will be soon made available to Pennsylvania
2 school districts. The first is the Qualified School
3 Construction Bond Program, which was created by ARRA.
4 It has \$11 billion allocated nationwide for each of
5 the two years. It's a new tax credit bond program.
6 It provides interest free financing for school
7 districts giving a tax credit to the buyers of these
8 bonds. These are taxable bonds. In lieu of interest
9 payments from the school district, the purchaser of
10 the bond receives a tax credit against its annual tax
11 liability to the federal government. This act
12 requires that a hundred percent of the available
13 proceeds must be used for construction, rehabilitation
14 or repair of public school facilities, equipment for
15 these facilities or related site acquisition. As you
16 see on the slide, \$315 million has been granted for
17 2009, and we are not yet aware of the 2010 allocation.

18 I would also like to note --- it's not on
19 the slide. I'd like to note that the Philadelphia
20 School District is not eligible to apply for the 2009
21 allocation since it receives its own allocation as one
22 of a hundred --- as one of the 100 largest school
23 districts in Pennsylvania. So separately,
24 Philadelphia will receive \$146 million in the
25 Qualified School Construction Bond Program.

1 The second program is the Qualified Zone
2 Academy Bond Program, which has been in existence in
3 Pennsylvania since 1998. ARRA allocated \$1.4 billion
4 for each year. And we will get three allocations as
5 indicated on the slide. One for 2008, one for 2009.
6 And again, we're not yet aware of what the 2010
7 allocation will be. The QZAB Program is one, like I
8 said, it's been in existence. It allows for certain
9 schools known as education zone academies to finance
10 renovation of school facilities, to purchase equipment
11 and provide up-to-date technology instructional
12 materials on an interest-free basis through the
13 allocation of tax credits. As indicated, it's \$13
14 million in '08 dollars, \$48 in '09 dollars. Again,
15 we'll be talking about this perhaps more with the
16 budget --- with the presentation from the Governor's
17 Budget Office. But we are looking to issue both of
18 these bonds through the state public school building
19 authority.

20 On the next slide, you will see that
21 there are certain eligibility criteria set forth in
22 these programs. The QZAB Program requires that the
23 school demonstrate high tax effort, high poverty. So
24 what does that mean? A school district's 2007-2008
25 equalized mileage must be greater than or equal to 19,

1 and its October 2008 free and reduced lunch percentage
2 must be greater than or equal to 45 percent. The QZAB
3 Program, which is new, as I mentioned, is available to
4 those districts who can demonstrate high tax, high
5 poverty, as I just mentioned, and/or be a growing
6 school district. By that, we mean a district whose
7 average daily membership must have increased between
8 the '02/'03 school year and '07/'08 by more than 500
9 students or greater than 10 percent.

10 So now some requirements which are set
11 forth. Ninety-eight (98) percent of the bond proceeds
12 are to be used for --- under QZAB for renovation,
13 repair, rehabilitation or for equipment used in that
14 school, as I mentioned. QZAB also has a private
15 business contribution criteria that's set forth. And
16 what that means is that a school district must receive
17 written commitments from entities to make
18 contributions, having a present value at the date of
19 the issuance of the bond of not less than ten percent
20 of the proceeds from that bond issue. So it's to
21 ensure that the local community has a vested stake in
22 the bond.

23 What are we doing in Pennsylvania to put
24 these bonds in front of the school districts and how
25 will we sort of rate those applications when they come

1 in? We're developing the guidance right now. We
2 expect to issue that within the next, I'd say, seven
3 to ten days. And I can't speak yet to the type of
4 interest or type of, you know, sort of the number of
5 projects that we'll receive or how great in size or
6 scope those projects will be, we're just not sure
7 about that yet. But we have created and set forth
8 some criteria, some priorities really about how we
9 will score those applications when we receive them.
10 And we've listed some of them here. Of course,
11 creating sustainable schools is something we've been
12 talking a lot about at the Department of Education,
13 increasing energy efficiency programs, reducing gas
14 emissions, improving indoor environmental quality.
15 Overall, it helps the health of the student and of
16 course, reduces their energy usage and saves money,
17 quite frankly. Of course, creating or renovating
18 space for preschool and pre-k programs, creating or
19 renovating space for science technology, math, which
20 is part of the new STEM initiative, and making any
21 improvements that would benefit the health and safety
22 of the school students and the school community. That
23 is a curricular review on the QZAB and Qualified
24 School Construction Bond Programs. I know you have
25 some questions. I'll be happy to try to answer them.

1 Thank you.

2 MR. NAPLES:

3 Senator Waugh?

4 SENATOR WAUGH:

5 Thank you, Mr. Chairman. Thank you, Mr.
6 Walsh --- Secretary Walsh. Not to --- actually, I
7 thought maybe the Secretary was going to hang around.
8 I wished I would have asked him the question while he
9 was here, but we'll go with you. So you drew the
10 stick here this morning. There's been considerable
11 concern with the amount of time that it's taken to
12 implement these two programs. You're familiar with
13 that. I know, at least in the Senate Republican
14 Caucus, there have been a number of discussions that
15 have taken place with both our Chairman of Education
16 and also the Majority Leader. Now, I heard you say
17 earlier that within seven to ten days, you plan to
18 distribute the qualification guidelines; is that
19 correct?

20 MR. WALSH:

21 We're looking to get that out in the
22 next, you know, say, two weeks, the guidelines for
23 these programs.

24 SENATOR WAUGH:

25 That's the question because, frankly, Mr.

1 Chairman, I know in a lot of other areas we've made
2 --- we've made huge strides in getting this stuff on
3 the ground and getting it implemented and to
4 everyone's credit. But in these two particular
5 programs, if you're not familiar with it, there is
6 some concern that we, as a state, have not been as
7 fast about implementation as some other states have.
8 So that's the point. I'm not going to dwell on it. I
9 think it's been made. But simply ask that we keep
10 track of this and hope the Department lives up to that
11 seven to ten day deadline. Thank you.

12 MR. NAPLES:

13 What we can do, Mike, is as soon as the
14 Department --- we'll pass this comment on. I'm sure
15 Mike will pass this comment on to the Secretary, but
16 also as soon as the Department has issued it's
17 guidance, we'll make sure Commission members get a
18 copy of that just so you can see what's happening in
19 that regard. Obviously, any feedback or any
20 return/comments you want to make, we'll be glad to
21 pass along if you don't want to do it directly.

22 SENATOR WAUGH:

23 The point really is that, you know, we're
24 looking at '08/'09 numbers waiting on '10 numbers to
25 come in. We haven't even delivered the '08/'09

1 component yet and we, honestly --- if you look at the
2 list tonight, there's a list included in the
3 documentation here, the number of districts could
4 really be receiving some benefit, whether it comes to
5 renovation or pure new construction projects. So
6 hopefully, we'll go --- that's it. I won't go on.
7 Thank you.

8 MR. NAPLES:

9 Beth from the Department is still here.
10 She may be able to help on this a little bit. Beth?

11 MS. OLANOFF:

12 Let me just say that one of the reasons
13 that we held this up is that in the Governor's
14 original proposal for the use of SFSF funding, there
15 was a substantial grant that was originally called
16 SFSF grant money, and it was in the amount of \$317
17 million. And that money was intended to be used for
18 similar kinds of activities, renovation and
19 modernization of school facilities. So we felt
20 compelled to wait until the resolution of that money
21 was finalized, and in the end, it didn't appear in the
22 final budget. But there would have been a substantial
23 overlap in what school districts --- which money they
24 would want to use for what kind of programs. So we
25 felt that we needed to wait until we knew if that

1 money was going to be available --- if any money was
2 going to be available from the SFSF funding that would
3 overlap in such a substantial way with the QZABs and
4 the QSCBs. So that's one of the reasons that we
5 waited.

6 SENATOR WAUGH:

7 I appreciate that explanation. That's
8 the first I had heard that. But still the point is,
9 it's time now to get this thing underway and get it
10 out so our districts can take advantage. Thank you.

11 MR. NAPLES:

12 Does that moderate, in any way, Beth, our
13 ability to use all the money?

14 MS. OLANOFF:

15 Use all which money, the SFSF money?

16 MR. NAPLES:

17 No, for the ---. Does that in any way
18 moderate ---

19 MS. OLANOFF:

20 No, not at all.

21 MR. NAPLES:

22 --- the bond opportunity, ---

23 MS. OLANOFF:

24 No.

25 MR. NAPLES:

1 --- the fact that we're slower on ---?
2 Okay. Any other questions for Secretary Walsh or for
3 any secretary that we can pass along as we go? Okay.
4 Thank you, Mike. And we have one brief additional
5 presentation before we get to Mr. Cross from the ---
6 Rick Dreher from the Office of the Budget.

7 MR. DREHER:

8 Good afternoon. Thank you for that ---.

9 MR. NAPLES:

10 You're going to have to move through that
11 next section because that was DCED.

12 MR. DREHER:

13 Good afternoon. Thank you for the
14 opportunity to be here and give you a brief update of
15 how ARRA is impacting the way we issue bonds in
16 Pennsylvania. My office is involved in the issuance
17 of General Obligation Bonds for the Commonwealth. And
18 annually, we issue upwards of \$1 billion in General
19 Obligation Bonds to fund literally over 1,000 capital
20 projects throughout the Commonwealth. These capital
21 projects can range from very large facilities, such as
22 new state prisons, renovated state office buildings,
23 to renovations to state parks, state police barracks,
24 local Community and Economic Development projects,
25 transportation assistance projects through various

1 local transportation authorities. So at any one point
2 in time, we have about 1,000 capital projects ongoing
3 for which we issue about \$1 billion in General
4 Obligation Bonds.

5 The main benefit, potential benefit, to
6 the Commonwealth from the ARRA Program is Build
7 America Bonds, commonly referred to as BABs. BABs
8 have dramatically altered the municipal bond issuance
9 market. Municipal governments, state and local
10 governments traditionally issue tax-exempt bonds.
11 Corporate and private entities traditionally issue
12 taxable bond issues. There's anywhere from 75 to 200
13 basis point spread between taxable rates and
14 tax-exempt rates. The Commonwealth has for at least
15 the last 30 years issued traditional tax-exempt
16 fixed-rate bonds. We have a very conservative debt
17 portfolio.

18 The potential advantage of Build America
19 Bonds are that they provide the Commonwealth the
20 ability to issue bonds at a marginally lower interest
21 cost. We would issue taxable bonds rather than our
22 traditional tax-exempt bonds, and the nuance with this
23 program is the issuer, the Commonwealth, can choose to
24 receive either a 35 percent direct subsidy from the
25 IRS or the issuer can choose to issue the bonds and

1 provide the purchaser of the bonds a 35-percent tax
2 credit. It's more likely that the Commonwealth would
3 choose to receive the direct subsidy from the IRS.

4 Again, Build America Bonds have
5 dramatically changed the landscape in the municipal
6 market. Since guidance came out from Treasury in late
7 spring, there have been over \$50 billion worth of
8 Build America Bonds issued, over 600 individual bond
9 issues across the state --- or across the nation have
10 been issued. And that speaks to the potential benefit
11 that municipal governments could receive.

12 Now, as soon as guidance came out in the
13 spring, we, the Commonwealth, along with our financial
14 advisors began looking at opportunities that we may be
15 able to take advantage of Build American Bonds.
16 However, there's numerous statutory provisions enacted
17 in the Commonwealth that effectively precluded our
18 ability to take advantage of this program. And not to
19 get into any of the mind-numbing details of bond
20 issuance, but the taxable market and the tax-exempt
21 market are very different markets, very different
22 buyers, very different structure.

23 So in the spring, the Commonwealth looked
24 at the opportunities, and because of where the market
25 was and some statutory prohibitions, we did not issue

1 any of our bonds up to this point as Build America
2 Bonds. Having said that, as the taxable market has
3 become more accustomed to the nuances of a municipal
4 issuer, like the Commonwealth, the market has really
5 come back to where the Commonwealth could benefit from
6 this program. So we're not changing what we're doing
7 in terms of issuing our bonds. The market is really
8 coming towards us in terms of meeting the needs that
9 we would require for us to issue and still comply with
10 various state requirements. So we will be actively
11 analyzing our ability to benefit from BABs.

12 Some brief summaries, again, the main
13 concept of a BAB is, you as the issuer, you issue
14 taxable bonds. They are issued at higher tax rate
15 than you would traditionally get with a tax-exempt
16 financing, but when you factor in the 35-percent
17 interest subsidy. So if we have, you know, a \$10
18 million interest payment, we will get 35 percent of
19 that back from the IRS. Actually, we will get that in
20 the form of a check before the payment goes out.

21 So it's somewhat --- it's a new process
22 by which we will be able to benefit directly from
23 receiving a check from the IRS rather than paying the
24 IRS. So when you factor in the 35-percent subsidy,
25 the net borrowing costs are actually lower using a BAB

1 approach rather than a traditional tax-exempt
2 issuance. And that's partly because of where interest
3 rates are right now and the spread between 30-year
4 treasuries and 10-year MMD, which is traditional
5 guideline of --- or traditional benchmark for the
6 municipal market, has narrowed considerably since the
7 spring. There are no caps.

8 Another of these other bond programs
9 indicated that Pennsylvania had a specific allocation.
10 BABs don't work that way. Issuers are allowed to use
11 Build America Bonds for any type of issuance. They
12 must still meet most of the traditional tax-exempt
13 financing requirements. They must be spent on capital
14 expenditures. And again, as I mentioned, we have a
15 very robust capital program, so we will look to use
16 Build America Bonds on those 1,000 or so projects
17 going forward.

18 The program is a two-year program. We
19 must issue all of our Build America Bonds --- or the
20 expiration for Build America Bonds is January 1st,
21 2011. So really we will begin in earnest with an
22 upcoming bond issue likely in January to take
23 advantage of this particular program.

24 To date, the Commonwealth Financing
25 Authority has issued \$400 million in Build America

1 Bonds. This was done in October, and it was part of
2 the financing for the H2O Program. The Commonwealth
3 received significant financial benefit from issuing
4 the bonds as BABs rather than traditional fixed-rate
5 maturities. And the Commonwealth is currently sizing
6 about an \$800 million bond issue that we'll price in
7 January. And where interest rates are at present, we
8 expect about two-thirds of that upcoming issuance, or
9 about \$600 million, would likely be issued as Build
10 America Bonds.

11 So in closing, we will continually
12 evaluate where the interest rate market is and make a
13 determination each time we issue bonds whether to
14 avail ourselves of the Build America Bond Program.
15 I'll be happy to answer any questions.

16 MR. NAPLES:

17 Any questions for Mr. Dreher? As he
18 characterized it, bond discussion can be mind-numbing,
19 and I know that sometimes gets people. But I know
20 there was a considerable amount of interest among the
21 Commissioners to have some sense of this, so I
22 appreciate you taking the time to do that. Thank you.
23 We have one further presentation to help satiate the
24 appetite of the Commission members on bonds. And
25 that's from Mr. John Cross of the U.S. Treasury. I

1 trust you won't be mind-numbing, Mr. Cross.

2 MR. CROSS:

3 I will aim for that goal.

4 MR. NAPLES:

5 Okay. Great.

6 MR. CROSS:

7 Thank you, Chairman Naples, members
8 of ---.

9 MR. NAPLES:

10 I just want to do a process check with
11 the Commissioners on the phone to make sure we haven't
12 lost anybody yet. I know Terry is on the phone, and
13 John Latini's on the phone and Guy Ciarrocchi. Are
14 you guys still doing all right.

15 MR. CIARROCCHI:

16 Yes.

17 MR. NAPLES:

18 Still plugged in okay?

19 MR. CIARROCCHI:

20 I am.

21 MR. NAPLES:

22 Okay.

23 MR. KOSTOFF:

24 This is Terry. I'm here.

25 MR. NAPLES:

1 Thank you.

2 MR. CROSS:

3 In any event, thank you, Chairman Naples,
4 members of the Commission, Secretary Creedon and other
5 interested folks here. I'm John Cross. I'm in the
6 Office of Tax Policy at Treasury. We worked on the
7 legislation on these bonds programs. We're working on
8 the implementation of these bond programs. I'm going
9 to take a few minutes to tell you everything you ever
10 wanted to know about all the bond programs in Stimulus
11 Act but were afraid to ask.

12 Initially, I have to do a couple little
13 preliminary things. First of all, I want to
14 compliment Beverly Hudson for all of her help on this
15 matter and for reporting to me that if I didn't do a
16 PowerPoint, I would be the first person in the history
17 of the universe to come before this Commission without
18 a PowerPoint, so she shamed me into that. And as a
19 reward, she gets to click the slides and see if she
20 has any idea where I am in talking about this stuff.

21 MR. NAPLES:

22 How many PowerPoint slides do we have,
23 Mr. Cross?

24 MR. CROSS:

25 I think it's like 12 maybe, but you all

1 have already talked about some of this stuff.

2 MR. NAPLES:

3 Well, we need to go through those
4 expeditiously.

5 MR. CROSS:

6 I understand.

7 MR. NAPLES:

8 Thank you.

9 MR. CROSS:

10 I'm here from Washington. As you may
11 appreciate in Washington, while there are many
12 critical problems going on in the world, the
13 newspapers are focused mainly on the party crashers at
14 the White House. And apparently it rose to a --- it's
15 one thing to crash parties at the White House, but in
16 the papers this morning, it rose to a new level. The
17 woman apparently crashed the Washington Redskins
18 Cheerleaders Alumni Association claiming to be a
19 member, and so that has some people into a complete
20 tizzy. Also I need to give you one technical point
21 before I ---.

22 OFF RECORD DISCUSSION

23 MR. CROSS:

24 This is a technical point. This is ---
25 people refer to this as the Stimulus Act or the

1 Recovery Act. And I just wanted to give you the
2 definition of stimulus, according to the Wall Street
3 Journal, is an indeterminate sum of taxpayer money
4 used to generate violent debate. It was previously
5 known as government spending. With that, let me turn
6 to some of these bond programs.

7 The Stimulus Act included a number of
8 innovative bond programs. The main goal is to give
9 state and local governments, you know, more tools for
10 lower borrowing costs, to promote capital project
11 investment and investments in school and energy and
12 job creation. At Treasury, we had a high priority to
13 implement all these programs, and I want to start with
14 --- at the risk of highlighting so you'll know all the
15 rules --- some of the stuff that Rick Dreher from the
16 Budget Department emphasized. It sounds like the
17 Build America Bond Program has been quite a successful
18 thing for the State of Pennsylvania, and that's
19 consistent with what's going on nationally.

20 Briefly, it is the broadest new program.
21 They can be issued in the next two years. They're an
22 optional alternative to traditional tax-exempt bonds.
23 What are they? They are conventional taxable bonds.
24 So state and local government issues a taxable bond,
25 pays the interest costs, say that interest cost was

1 ten percent. The Treasury Department makes a direct
2 payment for 35 percent of that interest cost to the
3 state or local government. I note that virtually all
4 of these bonds have been that kind as opposed to the
5 tax-credit kind. So everyone is using the ones where
6 you --- where they get a direct payment from the
7 government. This is a --- people refer to it as a
8 deeper subsidy than traditional tax-exempt bonds in
9 the following sense. Tax-exempt bonds historically
10 have saved people about 20 percent in interest costs.
11 This saves them 35 percent. The purpose of that was
12 stimulus, to get new projects encouraged and done
13 during this economic climate. What can these bonds be
14 used to finance? You can use them to finance any new
15 money capital projects for which you could issue
16 general governmental bonds.

17 Moving to the next slide, the most
18 interesting thing about this whole program is that it
19 broadens the market for state and local governments.
20 In other words, this is plain vanilla taxable debt
21 that anyone may be interested in buying regardless of
22 their tax circumstances. Pension funds can buy these.
23 There's a \$30 trillion taxable market, whereas
24 traditional tax-exempt bonds, you need to be able to
25 save taxes to have any interest on those. So

1 economists also think that this program is more
2 efficient than tax-exempt and bonds because tax-exempt
3 bonds are more valuable to people that have higher tax
4 brackets. One thing issuers always worried about was
5 well, geez, if the government is supposed to be making
6 payments, suppose they just quit, you know, making the
7 payments. There's a permanent appropriation for this,
8 similar to tax refunds. And so people need not worry
9 about that point. In terms of the payment procedures,
10 themselves, where this year it's being done manually,
11 but we're heading towards an electronic platform to
12 make these payments. It also offers --- this program
13 offers kind of a streamline compliance framework for
14 the IRS, in that it's not, you know, cluttered up with
15 third-party investors.

16 Moving to the next slide, I would
17 emphasize that the programs have very positive market
18 reception. The very latest data that's not out yet
19 that, you know, I got basically yesterday afternoon,
20 over \$55 billion of Build America Bonds have been
21 issued over 650 bond issues, at least 42 states and
22 about 21.3 percent of the total municipal market.
23 These programs have tended to have longer average
24 maturities than tax-exempt bonds and have attracted
25 more institutional investors. It's also sort of a

1 twofer in that they've relieved supply pressures in
2 the regular tax-exempt bond market and helped to lower
3 tax-exempt bond rates for that tried and true program.

4 Turning to the next slide, there's a
5 nifty picture of sort of the example of the kind of
6 savings that you get compared to regular tax-exempt
7 bonds. The dotted line at the bottom shows the
8 comparison, with the middle line being tax-exempt bond
9 rates. Savings have been, you know, between about 30
10 and over a hundred basis points, or one percent in
11 interest.

12 Turning to the next slide, there's
13 another pretty picture of sort of showing what tax-
14 exempt --- regular tax-exempt bond rates have done
15 since this program has come into effect.

16 The good news for your Commission and the
17 program is you all don't have to do anything to
18 implement this. This is kind of on automatic pilot
19 and people can just go use it. And frankly, that
20 independence is one of the things, I think, that's
21 helped it do well, that and the fact that it broadens
22 the market.

23 From the sublime to the even more
24 complicated, but quickly more complicated, Tax Credit
25 Bonds. The other novel kind of bond program under the

1 Recovery Act as a general category is Tax Credit
2 Bonds. Now, what are Tax Credit Bonds? They are
3 bonds that instead of having tax-exempt interest,
4 instead of having a direct payment from the Treasury
5 Department, they give tax credits to investors instead
6 of their payment of interest. There is a little tiny
7 experiment in that for about ten years in the,
8 so-called, QZABs or Qualified Zone Academy Bonds, that
9 were only about \$400 million a year since 1998. The
10 Recovery Act authorized over \$30 billion in Tax Credit
11 Bonds, including big authorizations for two kinds of
12 school bonds and two kinds of energy bonds. And
13 others have chatted a little about those, but let me
14 just go over them some more.

15 They tend to be --- again, the main way
16 about how they work is that they give tax credits
17 instead of interest. They tend to be very deep
18 subsidy programs in the sense that the tax credits are
19 supposed to cover a lot of the interest, so that with
20 the school bond programs, they're supposed to cover a
21 hundred percent of the interest. They have a somewhat
22 shorter maturity limit than traditional debt.

23 Turning to the next slide, just a few
24 more general things about Tax Credit Bonds. One of
25 the things is that sense the market doesn't set the

1 interest rates, Treasury sets the interest rates, and
2 that has been a somewhat artificial process. We've
3 tried hard to watch that, and we refined the
4 assumptions early this year that raised the rates, you
5 know, a full two percent. We're going to continue to
6 monitor that. You know, I think unlike Build America
7 Bonds, the Tax Credit Bond Programs, as I heard some
8 of the earlier folks today express, you know, they've
9 had much more trouble getting off the ground. The
10 Build America Bonds have sold like hotcakes. The Tax
11 Credit Bonds, you know, had got a small undeveloped
12 market, you know, sort of a peculiar instrument,
13 uncertain demand for tax credits, and some other
14 things like that. Those have been challenges. Now,
15 one of the things that we have regulatory authority
16 for and that we're going to try do as fast as we can
17 is rules that basically would allow you to sell the
18 tax credits or strict them separately from the
19 principle. The idea there would be somebody who needs
20 tax credits could buy the tax credits. Someone who
21 just wants a payment could buy the principle. You
22 know, that may help to broaden the market a little
23 bit. But I wouldn't, you know, over sell that
24 because, you know, I do think that these programs will
25 take time to develop.

1 The next slide has a few high points on
2 the school bond programs, which have basically already
3 been talked about, but let me just note a couple
4 little things. The Qualified School Construction
5 Bonds are --- that's the biggest new program. It has
6 \$11.2 billion in 2009, \$11.2 billion in 2010. And
7 notably, to the extent people don't use it for the
8 2009 period, you could carry it over and use it next
9 year. It's supposed to cover a hundred percent of
10 borrowing costs. It's for public school construction,
11 renovation and repair. We did guidance on the
12 allocations earlier in the year, including direct
13 allocations to the largest school districts, and the
14 balance of 60 percent to the states, about \$1.6
15 billion, not that much of these have been issued
16 through November of 2009. Pennsylvania had \$315
17 million in the state share. Philadelphia had another
18 \$146 million in the large city share.

19 The Qualified Zone Academy Bonds, you
20 know, that's another school bond program with a much
21 smaller authorization. It's the same kind of program
22 with just basically less money and also a private
23 business contribution requirement.

24 Moving next to the Energy Bond Programs,
25 there's the two Energy Bond Programs. You know, one

1 is called Qualified Energy Conservation Bonds. That
2 has a \$3.2 billion national line cap. I'm sorry,
3 there's one little typo there. The tax credit on that
4 is actually for 70 percent, not a hundred percent of
5 the borrowing costs for both the Energy Bond Programs.
6 The projects are a very broad range of energy
7 conservation purposes. It's a volume capped program.
8 The Treasury allocated the volume cap among the
9 states. In the state to-do list, you know, the states
10 need to divvy that up among projects and among large
11 local governments that are greater than 100,000
12 people. Pennsylvania got \$315 million of that
13 program. The one at the bottom of the slide, New
14 Clean Renewable Energy Bonds, New CREBS
15 affectionately, is for clean renewable energy
16 projects, and that basically is a project-by-project
17 dividing up that Treasury did and Treasury did. That
18 earlier this fall.

19 Next, let me just touch a little bit on
20 the Recovery Zone Bond Programs, which are sort of a
21 hybrid of a few things. They have a laudable purpose
22 in that they are aimed at areas with high
23 unemployment, high job loss, to try and encourage, you
24 know, economic redevelopment. There's a \$25 billion
25 total national authorization of that program among two

1 different kinds. Let me touch on each of them
2 separately. One is called Recovery Zone Economic
3 Development Bonds. That's like a souped up Build
4 America Bond where the federal government pays a
5 direct payment of 45 percent of the interest on those
6 bonds. They can be used for very broad public
7 governmental purposes to promote economic development
8 in recovery zones. Pennsylvania's share of this was
9 \$154 million. One more typo here. Only \$431 million,
10 not \$1.6 billion, of these bonds were issued
11 nationally through November of 2009.

12 The other type of these bonds is called
13 Recovery Zone Facility Bonds. They're like
14 traditional tax-exempt private activity bonds except
15 that they can be used for basically any kind of
16 commercial or business-type private project for
17 depreciable capital projects, you know, buildings and
18 the like and in recovery zones except for housing.
19 There's \$15 billion national volume cap with that.
20 Pennsylvania's share was about \$231 million.

21 And then I guess let me just touch on the
22 final slide on some of the wrinkles on this program.
23 The big trick on this program is that the statute
24 required that it be divided up locally among over
25 3,000 counties and large cities in the United States

1 and so --- and we did that under the statutory formula
2 that looked at unemployment declines in 2008. And
3 there's a whole list on the website that, you know,
4 has every county in the United States on it. It is
5 --- that system has presented some real challenges in
6 that it has tended to have --- result in really
7 dispersed amounts of little tiny bond allocations to
8 bunches of counties. You know, looking at
9 Pennsylvania, there are all kinds of counties that
10 have a million here and a million there. Counties
11 often have no procedures in place either to --- you
12 know, to divide up their --- the private authority
13 among projects or other procedures because they don't
14 typically do volume cap allocations. A little fun
15 fact and one of the more amusing questions we get at
16 the office is that many of the states in New England,
17 the counties have no government at all. So they had
18 some very exciting questions on how they're supposed
19 to use their programs.

20 I think --- I want to emphasize a point
21 here. These bond --- the Recovery Zone Bond Program
22 or the Economic Development Program, it's a great
23 deal. The 45 percent of the interest is just a great
24 --- you know, it's like Build America Bonds, except it
25 pays even more of the interest. And so if people can

1 figure out how to get the allocation challenges
2 resolved, you know, it's a --- that should --- not
3 much of that has been used to date, but that really
4 should be used. And I would encourage you to, you
5 know, educate people, look hard at local county
6 governments and help people figure out how to use it.

7 One of the tricks there is that the
8 statute says that counties can waive their unused
9 allocations, but the statute doesn't make them waive
10 that. So all kinds of states are trying to figure out
11 how, you know, on the one hand, to let counties that
12 got these direct allocations use them if they want to,
13 but on the other hand, to make sure that this
14 attractive program doesn't go to waste by just being
15 unused because of small amounts given to particular
16 counties. And so, you know, people are trying to look
17 at ways to, you know, set up a procedure, maybe by
18 sometime next year if they haven't used it, collect it
19 all up or try to get them to waive it and let others
20 use it. But anyway, I think that that's the big trick
21 on that program.

22 And you know, with that, I think I will
23 just leave you with one, you know, final observation,
24 which is, you know, while predictions can be
25 dangerous, particularly when they're about the future,

1 I do think that, you know, on the tax side in Congress
2 with these bond programs, state and local governments
3 have found that encouraging that Congress tends to
4 look at tools to support state and local borrowing
5 incentives and you know, will do so in the future.
6 The Build America Bond Program has clearly been very
7 successful, you know. And I think in the coming year
8 or two or sooner, people will begin to look at whether
9 or not that should be made permanent or expanded to
10 other sectors of the tax-exempt bond market. With the
11 Tax Credit Bonds, that's a trickier question. You
12 know, there's been some considerations to whether or
13 not we should change those into Build America Bonds.
14 But in any event, I'll just emphasize that, you know,
15 I think Treasury and the Administration are committed
16 to sort of helping state and local governments with
17 financing in challenging times. And I --- though this
18 is hypertechnical gory stuff, I'd be delighted to
19 answer any questions of any kind about it.

20 MR. NAPLES:

21 Does anyone dare have a question for Mr.
22 Cross? No, seriously, any questions that we could
23 direct to Mr. Cross? I note that --- go ahead,
24 Charlie.

25 MR. BATTAGLIA:

1 If I could, please? More about the
2 cheerleader situation here that's ---.

3 MR. NAPLES:

4 We'll do that offline, Charlie, for your
5 special consideration. I don't think that the
6 materials that Mr. Cross spoke from were sent to
7 Commission members. Is that right? They were not,
8 but we will send it out because there's a lot of text
9 on these slides and people would find it interesting
10 to look at if they have a real interest in the bonds
11 issue. But seriously, are there any questions for Mr.
12 Cross? I appreciate your willingness to come and
13 present and come all the way from Washington,
14 although, you're probably delighted to be out of the
15 city.

16 MR. CROSS:

17 Absolutely.

18 MR. NAPLES:

19 Oh, okay. Thank you. We have two items
20 left on the agenda. I fear we may not get to both and
21 I don't want to give short shrift to either, so we're
22 going to go to a presentation by Phil Magistro, who's
23 Deputy Director of Program Implementation for the
24 Health Information Exchange effort. Phil is going to
25 --- and by the way, while Phil is walking to the

1 podium, I suggest everybody take three seconds to
2 stand up and stretch because I know this has been a
3 demanding meeting. So we'll have --- anybody who
4 wants --- I'm the only one who wants to stand up.
5 Okay, fine. Let's go. Seventh inning break, right.

6 The meeting, as you know, Phil, as you
7 heard earlier, was planned to end at 1:30, and we want
8 to stick to that schedule. I don't know how much time
9 you plan for your presentation. I just note that the
10 strategic planner, which Phil will be presenting, is
11 this very heavy this document, so I trust Phil won't
12 present every page of this. But I would like you to
13 consider our time in terms of the constraints we have
14 for the meeting. How much time do you think you need
15 to fairly discuss this subject Phil?

16 MR. MAGISTRO:

17 Fifteen (15) minutes.

18 MR. NAPLES:

19 Okay, great.

20 MR. MAGISTRO:

21 Depending on questions from ---.

22 MR. NAPLES:

23 I understand. Thank you.

24 MR. MAGISTRO:

25 Thank you. Thank you very much, Chairman

1 Naples, Secretary Creedon and members of the
2 Commission. It's a pleasure to be back here to update
3 you on the Health Information Exchange activities that
4 I presented in September here. And back in September,
5 we were given information from the Office of National
6 Coordinator on funding that was available for creating
7 a stateside Health Information Exchange that was part
8 of a multi-prong funding approach from the federal
9 government that it was targeted at helping coordinate
10 and improve the quality of care for all the citizens
11 of the United States. And in that announcement, we
12 learned that Pennsylvania was eligible for \$17.1
13 million over a four-year period on a drawdown basis to
14 create statewide Health Information Exchange
15 activities.

16 This is part of a package that includes
17 an additional about one and a half billion dollars for
18 Pennsylvania hospitals and physicians to implement
19 electronic health records and provide meaningful use
20 of technology. The exchange is the component that
21 provides part of the meaningful use of the technology.
22 So they're hand in hand, but our \$17 million will
23 jumpstart us into enabling providers to get their one
24 and a half billion in incentives.

25 The framework that we were given to

1 operate under includes five domains. It makes us look
2 at how exchange activities will be governed, how
3 they'll be paid for, what type of technology will be
4 employed, what are the day-to-day operations that will
5 be required to carry this out and are there any legal
6 issues or policy issues that have to be addressed to
7 enable the sharing of information. We had a
8 multi-agency workgroup in place working on exchange
9 activities, but whenever the stimulus came out, we
10 were asked to create a strategic and operational plan
11 that would be approved by the Office of National
12 Coordinator. So we convened a core team representing
13 agencies that have some interest or impact on
14 exchanging health information, and we also went to the
15 external side and brought in outside folks that are
16 stakeholder representatives as well. We wanted to
17 make sure this was a thoroughly public and open
18 process and thoroughly vetted throughout the
19 community.

20 The plan is available. It was available
21 on November 20th. It has a lot of current state
22 alternatives and recommendations, and there are four
23 key areas that we feel that public input is helpful,
24 and that includes the governance piece, the funding,
25 any privacy issues and the technical component. And

1 I'll go through these quickly, but there are primarily
2 three options for governance. We now run the
3 operation out of the Office of Healthcare Reform, but
4 we knew from the beginning that there would be a
5 permanent home for the Exchange. And that could be in
6 an existing state agency. It could be a
7 not-for-profit, which many states have done as they
8 started through this process. Or it could be a public
9 authority-type agency, such as our Public Safety
10 Authority. Our recommendation based on the review of
11 all the options is that we ask the legislature to
12 create a public authority that would have strong
13 public-private collaboration. It would be staffed and
14 worked with committees and workgroups to represent all
15 of the key components: financing, legal, policy
16 compliance and such.

17 The second area that we want input on is
18 the financial model. And again, financial pieces,
19 equally as important as governance. In fact, in the
20 initiatives that have failed across the country,
21 they've either failed for a governance issues or
22 financing issues. And we need to have a sustainable
23 revenue model going into this. So our choices would
24 be some type of transaction, fee or subscription
25 basis. We could look to share --- use value added

1 services and sell those to users of the system. We
2 could look to share savings and use that to fund the
3 exchange activities. Or we could look to what Vermont
4 has done and assess medical claims. And our
5 recommendation, after reviewing all of this, is that
6 an assessment on medical claims is the most equitable
7 way to fund these activities. Now, this assessment is
8 a small number. We're talking 1/16 or 1/32 of one
9 percent. And just to put it in more realistic terms,
10 a 16th of one percent would mean that an average
11 doctor's office visit of \$85 would represent about a
12 nickel going into Health Information Exchange
13 activities. It's an equitable solution because all
14 payers would pay on their proportion of their business
15 in Pennsylvania.

16 And the real key to this is the providers
17 and hospitals would not be forced to pay and that
18 would increase adoption. One of the key things about
19 this system is it has to be used to be effective. And
20 to the extent you require users to pay for the use, it
21 would inhibit adoption. We are putting together a
22 cost justification for this as well.

23 On the privacy side, there are two basic
24 options. We can have people opt in opt out. There's
25 quite a bit of misconception about patients' health

1 records and the availability of those health records.
2 There is, in Pennsylvania, an existing basis for
3 protecting some types of information including
4 HIV/AIDS, mental health, drug and alcohol and minor
5 information. The workgroup had a legal team put
6 together of over 20 attorneys from various state
7 agencies, and we also reached out to the external
8 legal community to look at an analysis of state and
9 federal law and just to gather information on what may
10 or may not inhibit or promote the sharing of
11 information. And our recommendation is to continue on
12 with business as usual. Just because it's electronic,
13 we don't want to propose anything new. So in the
14 HIPAA world, patient information is shared legally for
15 treatment, payment or operations. We feel that that
16 should just continue on. We also feel that the super-
17 protected information --- mental health, drug and
18 alcohol and such --- should require additional
19 authorization just as it does today. So we're not
20 promoting any new recommendations here other than to
21 carry on business as it is.

22 On the technical side, the exchange that
23 we're promoting is based on the concept of connecting
24 regional activities across Pennsylvania. There are
25 pockets of activity today for connectivity between

1 either hospitals and doctors or hospitals and other
2 organizational entities. We're looking at providing a
3 web-based product that will use federal and state
4 standards so that it can connect not only to existing
5 regional HIEs or health systems, but also to the
6 National Health Information Network and to other
7 states because we have a lot of crossover on our
8 bordering states.

9 We are not looking for this to replace
10 any existing efforts that are out there but rather to
11 supplement them. And we're looking for flexibility
12 that will not only let us be a backbone to connect
13 regional health information exchanges, but because of
14 the accelerated time frame for the federal money,
15 we're looking for something that can give us the
16 ability to connect individual hospitals as well. So
17 we're looking for connecting regional efforts,
18 connecting large health systems such as a UPMC, a
19 Lehigh Valley, or connecting individual community
20 hospitals.

21 Our recommendation is that we enter into
22 an intergovernmental agreement --- interstate is
23 incorrect up there --- with the state of Delaware.
24 Now, this agreement would let us piggyback on their
25 existing contract for HIE services. Delaware was the

1 first statewide HIE. It's been in operation two
2 years. They have several years of work going into
3 this and have an existing proven program. We talked
4 with folks at the Office of National Coordinator about
5 this, and they support the idea. In fact, in their
6 guidance, they even suggest multi-state collaboration
7 to maximize the federal dollars. There are some very
8 strong reasons for this. Some of them include the
9 fact that implementation time can be reduced by 18 to
10 24 months. Delaware has spent over \$20 million in
11 building their system, in going through all the
12 processes that need to be put in place, in creating
13 algorithms for patient matching, in looking at all the
14 implementation issues and in negotiating contracts
15 with vendors for interfaces. We can piggyback on this
16 without having to pay any money toward that work that
17 was done, and our costs will be incremental costs
18 going forward.

19 We've been hit with a few questions, some
20 misconceptions. Some of them, three in particular:
21 would providers in Pennsylvania have to join DHIN, or
22 the Delaware Health Information Network? The answer
23 is no. We're looking at having a separate
24 Pennsylvania Health Information Exchange. It
25 piggybacks on what Delaware has, but it would be

1 branded and local to Pennsylvania with our own
2 policies for business operations, with our own
3 implementation priorities and our own revenue model.

4 Participation in this exchange is not
5 mandatory. It's a safety net. It's out there to
6 catch people that don't have a means of exchanging
7 information today. And anyone that has done something
8 along these lines can leverage what we provide or
9 connect to us to share information outside of their
10 organizational boundaries. And we are still
11 supporting and encouraging regional and subregional
12 activities. There's a lot of opportunity in
13 Pennsylvania for vendors to work at the regional and
14 subregional level, and we don't want to take any of
15 that way and say everyone has to use the statewide
16 system. It's out there as a backbone for the Medicaid
17 world. It's out there to provide the safety net for
18 the hospitals that are rural or can't participate in a
19 regional health information exchange. And it's only a
20 supplement to the existing world today.

21 The plan, as I mentioned, has been posted
22 on our website, gohcr.state.pa.us. We're accepting
23 public comments through the 20th or the 21st of
24 December. And then we'll finalize the plan and
25 present it in early January to the Office of National

1 Coordinator. At the same time, we're starting work on
2 our operational plan, which will be much more complex,
3 and we hope to have that done by March of 2010. Both
4 of these have to be approved by the Office of national
5 Coordinator. We then negotiate milestones for
6 payment, and we can begin to drawdown our money
7 following that. And the bulk of that \$17 million is
8 supposed to be used in the first two years.

9 So that's it. Is there any questions.

10 MR. NAPLES:

11 One of the reasons we wanted to make sure
12 we had this presentation today was because, as Phil
13 just mentioned, there's a public comment period until
14 the 20th, and we wanted to make sure that the
15 Commission had a preview of this. So I hope that has
16 provided some insight for Commission members and other
17 listeners. But are there specific questions for Phil
18 on this? There's the opportunity to make public
19 comment. We can just --- I'm sorry. Go ahead, Gene.

20 MR. BARR:

21 Thank you. Phil, thanks for getting
22 through a lot of slides very quickly. I appreciate
23 that. A couple questions. You announced that you're
24 looking at an assessment on health insurers in order
25 to fund this. Anything going on at the federal level

1 in terms of the debate there between the various
2 proposals that would impact your ability to levy that
3 assessment?

4 MR. MAGISTRO:

5 I don't have an answer for that. I don't
6 know.

7 MR. BARR:

8 Two, your other proposal was to partner
9 with --- link up with the State of Delaware, the
10 current system. Are there agencies, entities in
11 Pennsylvania that can provide something similar? Have
12 you talked to them? I assume you've done an
13 assessment on every one that's out there and have come
14 to this conclusion.

15 MR. MAGISTRO:

16 Yeah, we've not only looked at
17 Pennsylvania, we've looked at other states and their
18 activities. And by any measure, the information that
19 we reviewed said that the best use of taxpayer money
20 and federal stimulus money is to partner with
21 Delaware.

22 MR. BARR:

23 Okay. Given that Delaware obviously is a
24 much smaller system, are you confident in their
25 ability, and obviously you won't know this until you

1 start, to take on the huge influx of information based
2 on their partnership with Pennsylvania?

3 MR. MAGISTRO:

4 Actually, we are very confident, and for
5 a couple of reasons. Delaware's system is an
6 application and a hosting service. The hosting
7 service is Perot Systems. They can host far more than
8 Pennsylvania needs. The application is a product that
9 is used not only in Delaware, but in Mississippi and
10 in California. And if you have to connect two
11 entities, from that point on scaling up to 200 is not
12 an issue of application, it's an issue of server
13 space.

14 MR. BARR:

15 Is there a job creation issue here that
16 we will not see as a result of sending this system
17 outside the state or somewhere else?

18 MR. MAGISTRO:

19 I think the job creation would be the
20 same. If we did not partner with Delaware, then any
21 other system that we use would not be a Pennsylvania-
22 based system anyway. If you look at all the statewide
23 activities across the country, there are no
24 Pennsylvania companies that are doing the statewide
25 activities for any state.

1 MR. BARR:

2 Okay. Have we done a formal RFP for this
3 or ---

4 MR. MAGISTRO:

5 No.

6 MR. BARR:

7 --- have you just kind of done an
8 informal assessment ---?

9 MR. MAGISTRO:

10 We were working through an RFP, and then
11 in, I believe it was May of this year, Delaware
12 approached us about a southeast initiative, partnering
13 with Delaware because there's a big crossover in
14 patients. As we worked through the summer on those
15 issues, we came up to the stimulus guidance and the
16 ONC recommendation that we partner with other states
17 to do this, and that option became much more
18 attractive. And as we looked at their system and
19 capabilities, the flexibility of it, the scalability
20 of it, the cost --- I mean, I didn't touch on it, but
21 we are piggybacking on their existing contract, which
22 enables us to use the cost that they negotiated two
23 years ago, and it enables us to use all of their work
24 products and everything that we would not have to pay
25 to create new.

1 MR. BARR:

2 Thank you.

3 MR. MAGISTRO:

4 Sure.

5 MR. NAPLES:

6 Tony?

7 MR. ROSS:

8 Thanks for coming, Phil. Just trying to
9 understand process going on Gene's points about
10 Delaware. So this is a recommendation. Then what
11 happens moving forward?

12 MR. MAGISTRO:

13 The public comment period will end.
14 We'll take all those comments. We'll come back and
15 revisit everything. And our process is to work
16 through the healthcare reform cabinet, which is the
17 secretaries of all the cabinets that are impacted by
18 healthcare issues. And then the governor from there.

19 MR. ROSS:

20 Okay. And I just want to be clear, when
21 you say providers, are you including people like
22 visiting nurses, behavioral health? Some of those
23 folks from those areas have reached out to me and
24 they're not quite clear how they might fit into this.

25 MR. MAGISTRO:

1 Yeah, the stimulus guidance was a little
2 limiting in some respects. I mean, there are
3 definitions for eligible folks to receive money for
4 EHRs. There's also other means, and potentially a
5 fund will be created from the federal government to
6 help those people that aren't in the Medicare or
7 Medicaid world receive monies. But it is a small
8 universe right now, but a very lucrative one.

9 MR. ROSS:

10 If you receive Medicaid, you're sort of a
11 provider, is that ---?

12 MR. MAGISTRO:

13 No. There's a volume number.

14 MR. ROSS:

15 Okay.

16 MR. MAGISTRO:

17 Thirty (30) percent of their volume. But
18 they haven't defined what volume is, whether it's
19 patient visits or dollar amounts. Some definitions
20 have to happen. The real key ---.

21 MR. ROSS:

22 Same as the job definition feeds too.
23 They haven't defined that either.

24 MR. MAGISTRO:

25 The real key to this is, quite honestly,

1 it has been even before guidance from the federal
2 government is to give authorized caregivers the
3 information they need at the point of care so they can
4 make good decisions, eliminate all the redundant
5 testing that goes on and putting patients through
6 unnecessary testing, improve their quality of life and
7 reduce costs.

8 MR. ROSS:

9 Thank you.

10 MR. NAPLES:

11 Phil, this is a strictly voluntary
12 program at this stage for a provider to be part of it;
13 is that right?

14 MR. MAGISTRO:

15 It is, although it's tied directly to
16 them getting incentive money for electronic health
17 record use. The federal government put out a criteria
18 called Meaningful Use. And within that criteria it
19 says you have to share information or be able to share
20 information outside of your organization.

21 MR. NAPLES:

22 So the principle of sharing this
23 information is not at debate? The issue at debate is
24 how we would do it?

25 MR. MAGISTRO:

1 In all of our feedback so far, the users
2 of the system are very supportive to this plan. There
3 may be some nuances they'd like to see addressed. The
4 issue that we see is in the vendor community with why
5 are we doing an agreement with Delaware. And I did
6 not mention, but it is permitted under State
7 Procurement Code Chapter 19. And it is --- in our
8 opinion, it is the best use of taxpayer money.

9 MR. NAPLES:

10 I'm sure there'll be more debate around
11 that issue.

12 MR. MAGISTRO:

13 I'm sure there will.

14 MR. NAPLES:

15 But the choice of --- the fact that this
16 is not mandatory but voluntary in terms of
17 participation, even with the incentives that you
18 talked about, that's a matter of the national approach
19 or is that a matter of state choice?

20 MR. MAGISTRO:

21 It's a national approach. Now, they're
22 creating programs ---. To look at this as an IT
23 project is a little misleading because it's actually a
24 clinical initiative project that has an IT component.
25 And the federal government, state Medicaid, they're

1 creating programs, clinical initiatives, that will
2 require sharing of information in some ways. So even
3 though it's voluntary, to realize all those benefits
4 and participate in those programs, it will be needed.

5 MR. NAPLES:

6 As I said this is probably not the last
7 time we'll hear about this discussion. But are there
8 any other questions or comments from Commission
9 members?

10 MR. MAGISTRO:

11 Oh, yes. I'm sorry. Thank you. We are
12 scheduling a public meeting on December 16th at nine
13 o'clock in the capital in the Media Center, and it
14 just came out the other day. I forgot about it. 9:00
15 to 12:00 --- 9:00 to 11:00, I believe, on December
16 16th in the Media Center. And we'll have more
17 information available on our website. Thank you.

18 MR. NAPLES:

19 Thanks very much, Phil. Appreciate it.

20 MR. MAGISTRO:

21 Thank you.

22 MR. NAPLES:

23 We're obviously right up against the end
24 of our meeting. We had one additional agenda item
25 that I don't --- as I said earlier, I don't want to

1 give short shrift, so I'm going to put it off until
2 the next meeting, Eileen, if that's okay with you. I
3 work with Eileen every day so I have to make sure I
4 don't get in trouble here. But thank you, I
5 appreciate your forbearance on that because I think to
6 try to squeeze it in, even if we asked the Commission
7 to stay longer, would not be fair to the subject.
8 And the importance of the subject really goes to the
9 issue that in what Pennsylvania's trying to do, it's
10 not just a matter of reporting 1512 well and
11 implementing the programs well, but it's also built
12 around making sure that we have a standard --- return
13 on what we invest and a standard of performance in
14 what we invest. And one of the issues on performance
15 is what kind of performance measures do we have out
16 there, outcome measures that we can report on publicly
17 so people can see how well or how not well their money
18 is being spent. And in the Office of Accountability,
19 we've given a tremendous amount of attention to this
20 issue. It's not mandated. It's not required. It's
21 not a federal issue. It's simply the approach that we
22 in Pennsylvania have decided to take to try to answer
23 the question for citizens, is this a good use of our
24 money and what are we getting for it. So at the next
25 --- we'll have that at the next meeting.

1 I said earlier that we would provide an
2 opportunity for public comment. Our time is very
3 short, but I just want to throw it out there if there
4 is someone who would like to make a public comment.
5 Yes, ma'am?

6 MS. HILL:

7 My name is Jacqueline ---.

8 MR. NAPLES:

9 Would you come up and use the microphone,
10 please? It's right here in the center. We can lift
11 it for you. Where's our magical guy? Thank you.
12 We're trying to keep you off balance.

13 MS. HILL:

14 Thank you. My name is Jacqueline Hill
15 and I'm the Director of the Pennsylvania Minority
16 Business Center. We're located in Philadelphia and
17 funded by the U.S. Commerce Department, and the
18 Secretary made reference to our organization earlier
19 in his presentation. I want to thank you, Secretary,
20 for focusing and putting a plan together. But I'd
21 like to challenge you as Commission members to keep in
22 mind that the growth and development of minority
23 business is the growth and development of the State of
24 Pennsylvania. There are five companies that we
25 brought with us today. Collectively --- and I'd like

1 for you to stand, if you'll take a few minutes.
2 Collectively, they represent about \$50, \$60 million in
3 annual revenue, close to 3,000 jobs. I think the
4 least amount of time that any of these firms have been
5 in business has been about three years. Some have
6 been around as many as 20-plus. And none have had
7 opportunity to have access to contract dollars through
8 the stimulus program. They all are more than capable,
9 they are more than qualified in terms of being able to
10 get --- to perform the work given the opportunity.
11 I'd like to conclude by saying growing minority
12 business is growing the State of Pennsylvania. Thank
13 you.

14 MR. NAPLES:

15 Thanks for those comments. Yes, sir?

16 MR. LEWIS:

17 Mr. Chairman and Commission members, I
18 thank you for the opportunity for public comment. My
19 name is Kelly Lewis. I'm president of TECHQuest
20 Pennsylvania and the Technology Council of Central
21 Pennsylvania. We've been very involved in the health
22 IT efforts of the stimulus package as well as the
23 broadband applications underneath the stimulus
24 package. Our concern is the technology industry
25 spokes group

1 --- spokesperson group is the open and transparency
2 guidelines in the stimulus package and the methodology
3 used for the health IT presentation that we heard
4 today.

5 We are very concerned about creating jobs
6 in Pennsylvania based on the stimulus package. That's
7 the goal announced by President Obama. We encourage
8 competition. We believe that's how you get the best
9 prices when you do IT projects. You want to get a
10 wide breadth of proposals from the industry to see the
11 best way to implement these type of complex
12 technologies. Delaware is a much smaller state than
13 Pennsylvania, very homogenous, and it has a few
14 hospital systems. Pennsylvania that is very complex.
15 We are a very large healthcare state. We've got
16 cities like Pittsburgh and Philadelphia have very
17 complex and very large-scale hospital systems. We
18 want these jobs in Pennsylvania.

19 We're concerned when we do a reciprocal
20 agreement with Delaware that it will also create jobs
21 in Delaware and not necessarily in Pennsylvania. If
22 we do the reciprocal agreement, we will not gain the
23 benefits of the Minority Business Enterprise and Women
24 Business Enterprise applications that are applicable
25 in all our IT projects in Pennsylvania, many of which

1 require a 20-percent allocation. That will not take
2 place with the Delaware agreement as we understand it.

3 So in ending, we want to encourage an
4 open and transparent RFP process. We were concerned
5 originally with the HIE consulting contract, the
6 Gartner. Again, that was not an open and transparent
7 process. They were just chosen on an ease of use basis
8 versus opening this up for a competitive bid. Thank
9 you.

10 MR. NAPLES:

11 Thank you for your comments. Yes, ma'am?

12 MS. TAYLOR:

13 Thank you, Chairman Naples, for giving me
14 the opportunity to speak and Secretary Creedon and the
15 rest of the Commission members. It is great that
16 there is public comment. I think it's very important
17 for that accountability and transparency that we talk
18 about. My name is Celeste Taylor. I'm the Director
19 of the Regional Equity Monitoring Project. I've had
20 the opportunity to speak with Chairman Naples way back
21 in June when a group of Pennsylvanians was able to
22 meet with him. I had to do it over the phone, so it's
23 good to see him in person.

24 But the whole issue of equity is such a
25 huge issue, and as we try to make sure that those who

1 have been traditionally shut out of the system are
2 able to take advantage of opportunities. Some of the
3 very specifics that were discussed today are really
4 important and I can take that back to my hometown in
5 Pittsburgh. I'll be back next month. I'll be
6 bringing some advisory council members, one in
7 particular with the Women and Girl's Foundation. We
8 try to make sure that in addressing minorities and
9 women that we do our work. Many times as a grassroots
10 organization, we're told we don't do our homework, but
11 I've been digging down deep into the numbers. And you
12 could look at this data all day and people are telling
13 us to manage our expectations. And the aspirational
14 goals have got to be made real.

15 I was very surprised to hear about this
16 executive order. I've been waiting to hear from Peter
17 Speaks. In June, I talked with him in Pittsburgh. I
18 know him well. The executive order by Mayor
19 Ravenstahl is something that has been hush-hush as
20 well. Please, these executive orders have to be more
21 than just lip service. These can provide a real, you
22 know, policy change so that we can get these
23 opportunities flowing. It's great to see my friend
24 Jackie Hill and just the concrete proof of business
25 owners that really want to do business. And I really

1 do look forward to catching up with you in a more
2 detailed manner, because it's about jobs.

3 And please don't oversell how well
4 Pennsylvania did because we have to do better, and I
5 really believe the President and others are really
6 going to look to do another stimulus package that
7 deals with jobs. And Pennsylvania really needs to be
8 ready so that we can provide opportunities to
9 everyone. Thank you.

10 MR. NAPLES:

11 Thank you for your comment. Is there any
12 other one that would like to speak? We are over
13 time. I appreciate your forbearance again for
14 Commission members. I would just note for the
15 Commission members that the next 1512 report is due as
16 of December 31st, so it'll be a busy and interesting
17 holiday season for the folks in the state who are
18 charged with this responsibility. We will be filing
19 the report as was the same this past quarter, by
20 January 10th, 2010. So you'll be hearing more about
21 that. Our next meeting for the Commission is on
22 January 14th, so make sure that's on your calendars,
23 please, same place, same time I think.

24 And I would just like to end the meeting
25 by saying Merry Christmas or Happy Holidays to all,

1 whatever is the most appropriate greeting and hope you
2 all have a happy holiday and look forward to seeing
3 you in January. We'll adjourn the meeting. Thank
4 you.

5 * * * * *

6 MEETING CONCLUDED AT 1:36 P.M.

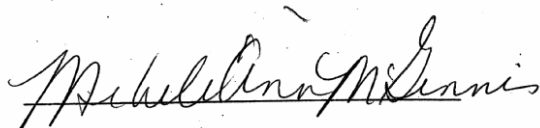
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CERTIFICATE

I hereby certify that the foregoing proceeding Stimulus Package Public Meeting was transcribed by me on 12/23/2009 and that I attest that this transcript is a true and accurate record of the proceeding.


Court Reporter