

State of Delaware
Office of the Governor
Fiscal Year 2018
Financial Overview
January 12, 2017

Budgeting Principles

- **Invest in Priorities:**

- Job Growth.
- Stronger Schools.
- Quality of Life.

- **Keep Core Commitments:**

- K-12 and Higher Education.
- Healthcare.
- Public Safety.

- **Ensure Fiscal Responsibility:**

- Creating a balanced budget despite fiscal challenges.
- Maintaining AAA-bond rating.
- Fully funding Rainy Day Fund.
- Only appropriating 98 percent of revenue.
- Adhering to three-part debt limit.

Budget Overview

| | |
|---|-----------------------|
| December FY 2018 DEFAC Resources (@ 98%) | \$ 3,941,700.0 |
| FY 2017 Appropriations | (4,142,600.0) |
| Appropriation Surplus/(Deficit) | \$ (200,900.0) |
| FY 2018 Cost Drivers | (149,127.7) |
| Appropriation Surplus/(Deficit) | \$ (350,027.7) |

FY 2018 Cost Drivers

| | |
|---|----------------------|
| Education | <u>\$ (49,364.4)</u> |
| Public Education Unit Count | (28,396.7) |
| Early Childhood Initiatives | (7,981.0) |
| Wilmington Education Improvement Commission | (7,500.0) |
| Pupil Transportation | (3,519.4) |
| Related Services | (751.2) |
| Other Education | (1,216.1) |
| Personnel | <u>(36,132.8)</u> |
| Basic Pension | (12,539.3) |
| Public Education Steps | (9,238.6) |
| Salary Annualization | (6,750.0) |
| Retiree Health | (3,038.5) |
| Other Personnel | (4,566.4) |

Budget Overview

| | | |
|---|-----------|-----------------------|
| Settlement/Special Funds | | <u>(17,703.9)</u> |
| Housing Development Fund | (4,000.0) | |
| Self Insurance | (3,463.7) | |
| State Rental Assistance Program | (3,000.0) | |
| Legal Fees | (2,435.6) | |
| DIMER | (1,728.6) | |
| Delaware Child Support System Maintenance | (1,494.4) | |
| Community Housing Supports | (1,000.0) | |
| DIVME | (364.1) | |
| DIDER | (217.5) | |
| Operations | | <u>(12,788.0)</u> |
| DOC Medical | (9,028.2) | |
| FOCUS Ongoing System Support | (903.1) | |
| Other Operations | (2,856.7) | |
| Medicaid | | <u>(13,329.9)</u> |
| Debt Service | | <u>(9,567.2)</u> |
| Health and Social Services | | <u>(5,912.7)</u> |
| Child Care Program Growth | (2,843.4) | |
| Substance Use Disorder | (2,015.0) | |
| Birth to Three Program Growth | (923.7) | |
| Other Health and Social Services | (130.6) | |
| Additional Cash to the Bond Bill | | <u>(4,328.8)</u> |
| FY 2018 Cost Drivers | | \$ <u>(149,127.7)</u> |

Balanced Financial Plan to Address FY 2018 Gap

| | | |
|--|-----------------|------------------|
| Appropriation Surplus/(Deficit) | | \$ (350,027.7) |
| Reductions | | |
| Agency and Program Cuts | \$ 56,331.1 | |
| Property Tax Subsidy | 25,183.7 | |
| Employee/Retiree Health Care | 23,968.0 | |
| Other Reductions | 19,500.8 | |
| Grants-in-Aid Reduction | <u>12,844.1</u> | 137,827.7 |
| Revenue | | |
| Governor's Recommended Revenue Changes @ 98% | | <u>212,200.0</u> |
| Appropriation Surplus/(Deficit) | | \$ - |

- Allows for 1.09 percent budget growth in FY 2018.
- Begins to resolve structural budget deficit in future fiscal years.

Agency and Program Cuts

| | | |
|--|-----------|-----------------|
| Agency Base Budget Reductions | \$ | 31,831.1 |
| Open Space* | | 9,800.0 |
| Farmland Preservation* | | 9,800.0 |
| Energy Efficiency Fund* | | 4,900.0 |
| | | <hr/> |
| Total : Agency and Program Cuts | \$ | 56,331.1 |

*** Revenue reflected at 98 percent.**

Agency Base Budget Reductions

| Agency | Reduction |
|--|------------------|
| Legislative | \$ (30.0) |
| Judicial | (32.1) |
| Office of the Governor | (6.2) |
| Office of Management and Budget | (642.1) |
| Delaware Economic Development Office | (1.4) |
| Criminal Justice | (4.3) |
| Delaware State Housing Authority | (700.0) |
| Department of Technology and Information | (47.9) |
| Lieutenant Governor | (0.5) |
| Auditor of Accounts | (27.9) |
| State Treasurer | (4.2) |
| Office of Attorney General | (15.8) |
| Office of Defense Services | (10.0) |
| Department of State | (529.3) |
| Department of Finance | (169.5) |
| Department of Health and Social Services | (9,418.5) |
| Department of Services for Children, Youth and Their Families | (461.7) |

Agency Base Budget Reductions

| Agency | Reduction |
|--|----------------------|
| Department of Correction | (126.0) |
| Department of Natural Resources and Environmental Control | (268.3) |
| Department of Safety and Homeland Security | (202.3) |
| Department of Transportation | (500.0) |
| Department of Labor | (188.6) |
| Department of Agriculture | (66.4) |
| Department of Elections | (4.1) |
| Fire | (12.8) |
| Delaware National Guard | (49.8) |
| Advisory Council for Exceptional Citizens | (0.2) |
| University of Delaware | (1,655.5) |
| Delaware State University | (168.7) |
| Delaware Technical Community College | (314.4) |
| Department of Education | (16,172.6) |
| Total : Agency Base Budget Reductions | \$ (31,831.1) |

Property Tax Subsidy

- **Current**
 - State pays lesser of 50 percent or \$500 of property owners' school taxes.
- **Proposed**
 - Eliminate subsidy.
- **Fiscal Impact**
 - Estimated savings of **\$25.2** million

Employee/Retiree Health

- **Introduce Consumer Driven Healthcare (CDH) Plan with Health Savings Account (HSA), effective January 1, 2018.**
 - Effective for all employees hired on or after January 1, 2008, and optional for employees hired before that date.
- **Implement deductibles for all plans.**
- **Eliminate health insurance premium preference for two state employees who are married (Double State Share).**
- **Eliminate contribution inequity for pensioners on Special Medicfill Plan.**
- **Fiscal Impact**
 - Estimated savings of **\$24.0** million.

Other Reductions

| | | |
|--|-----------|-------------------|
| Completion of amortization of Post Retirement Increases | \$ | (14,082.7) |
| Complement Reduction | | (3,000.0) |
| Other Post Employment Benefits Rate Change | | (1,100.0) |
| Pass Through Reduction | | (594.3) |
| Energy Reduction | | (500.0) |
| Other | | (223.8) |
| Total : Other Reductions | \$ | (19,500.8) |

Grants-in-Aid Reductions

| | | |
|--|-----------|-------------------|
| Eliminate partnership with counties for Paramedic Program | \$ | (10,810.1) |
| Community Agencies | | (1,604.0) |
| One-Times | | (430.0) |
| | | <hr/> |
| Total : Grants-in-Aid Reductions | \$ | (12,844.1) |

Governor's Recommended Revenue Changes

| Source | Description | FY 2018 |
|--|--|--------------|
| Franchise Tax | Inflationary adjustments to corporate franchise taxes and establishing a new top rate of \$250,000 on corporations with \$750.0 million or more of reported revenues or assets | \$ 115,000.0 |
| Personal Income Tax | Eliminate itemized deduction, increase standard deduction by 50% | \$ 18,100.0 |
| | Top rate from 6.6% to 6.8% at \$60,000 | \$ 9,900.0 |
| | Eligibility to age 65 for pension deduction and extra personal credit | \$ - |
| Realty Transfer Tax | Increase state assessment from 1.5% to 2.5% | \$ 44,000.0 |
| | 0.25% from counties and local governments | \$ 11,000.0 |
| Cigarette Tax | From \$1.60/pack to \$2.60/pack | \$ 18,600.0 |
| Total: Governor's Recommended Revenue Changes | | \$ 216,600.0 |
| Total: Governor's Recommended Revenue Changes @ 98% | | \$ 212,200.0 |

The State of the State's Finances

Addressing the FY 2018 Gap

FY 2018 DEFAC Available Resources

| | | |
|---|----------------------|----------------|
| <i>December DEFAC FY 2018 Resources @ 98%</i> | \$ 3,941,700.0 | |
| <i>Less: FY 2017 Appropriations</i> | <u>(4,142,600.0)</u> | \$ (200,900.0) |

FY 2018 Cost Drivers (149,127.7)

Subtotal: Appropriation Surplus/(Deficit) \$ (350,027.7)

Agency and Program Cuts 56,331.1

Property Tax Subsidy 25,183.7

Employee/Retiree Healthcare 23,968.0

Other Reductions 19,500.8

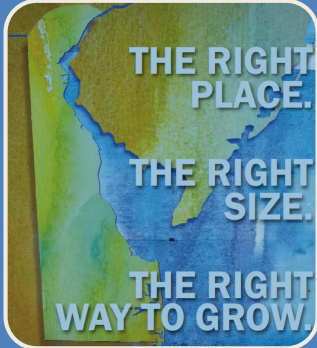
Grants-in-Aid Reduction 12,844.1 137,827.7

Governor's Recommended Revenue Changes @ 98% 212,200.0

Total: Appropriation Surplus/(Deficit) \$ -

FY 2018 Recommended Capital Budget

Economic Development



\$10.0 million to recapitalize the Strategic Fund.



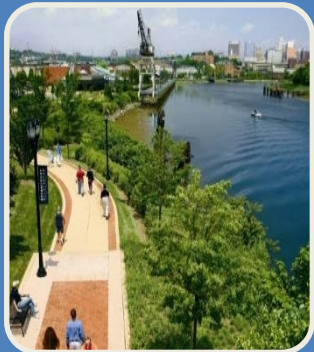
\$8.5 million to promote rehabilitation and construction in designated Downtown Development Districts.

FY 2018 Recommended Capital Budget

Economic Development



\$15.0 million for infrastructure improvements at the Diamond State Port Corporation.



\$2.9 million for the Riverfront Development Corporation.

FY 2018 Recommended Capital Budget

Quality of Life



\$6.0 million (in addition to \$3.6 million in the operating budget) for DSHA's Housing Development Fund.

Between FY 2009 and FY 2016, \$66.8 million was dedicated to this fund, leveraging over \$235.6 million in federal and private funds and retaining or creating an estimated 1,827 jobs.



\$5.8 million for libraries, including Rt. 9/13, Duck Creek, Harrington, Selbyville and Millsboro.

Since FY 2010, \$44.6 million has been dedicated to library construction.

FY 2018 Recommended Capital Budget

Quality of Life



\$4.8 million for redevelopment of strategic sites, including NVF and Fort DuPont.



\$2.5 million for Statewide Trails and Pathways.

FY 2018 Recommended Capital Budget

Ensuring Public Safety



\$6.4 million to upgrade the 800 MHz radio infrastructure.



\$12.8 million for a New Troop 7 in Lewes.

FY 2018 Recommended Capital Budget

Infrastructure



\$28.0 million in agency Minor Capital Improvements and Equipment and Maintenance and Restoration funds.



\$5.3 million for statewide facility improvements.

FY 2018 Recommended Capital Budget

Education



\$120.1 million for Public Education projects.

- Funding for Minor Capital Improvements.
- Funding for major capital projects in the Caesar Rodney, New Castle County VoTech, Brandywine, Cape Henlopen, Christina and Pending Referenda Contingency.



\$16.5 million for Higher Education projects.

- Funding for projects at Delaware State University, Delaware Technical Community College and the University of Delaware.

Redefine State and Local Share of School Construction Costs

- Current
 - State pays maximum of 80 percent or minimum of 60 percent of all school construction costs, except for special schools that are 100 percent state funded.
- Proposed
 - Except for special schools, which will remain 100 percent funded by the State, the State will pay 50 percent of all school construction costs moving forward, effective with Certificates of Necessity issued in Fiscal Year 2018 for Fiscal Year 2019 budget requests.

FY 2018 Recommended Financial Plan

| | |
|--|--------------------------|
| General Fund Operating Budget | \$4,128.4 million |
| Transportation Trust Fund Budget | \$341.0 million |
| Grants-in-Aid | \$33.0 million |
| Bond and Capital Improvements Act | \$555.3 million* |
| - State Capital Projects..... | \$270.5 million |
| - Transportation Projects..... | \$284.7 million |

- *FY 2018 Operating Budget reflects 1.09 percent growth.*

** This figure is not the sum of the component factors due to rounding of actual amounts.*

End of Presentation