State of Delaware
BUDGET RESET:
GOVERNOR CARNEY’S
BUDGET PROPOSAL
FOR FISCAL YEAR 2018
March 23, 2017
$385.6 Million Budget Gap for FY 2018

Expected Revenue: $3,906,100,000

Expected Expenses: $4,291,727,700

Budget Shortfall: $385,627,700

March DEFAC Available Revenue for FY 2018 Appropriation

FY 2017 Level of Appropriations plus Cost Drivers
Governor Carney’s Key Financial Principles

✓ Making Delaware more competitive, while promoting economic growth.

✓ Using a balanced approach that cuts spending and raises revenue through shared sacrifice.

✓ Building a long-term, sustainable financial plan.

✓ Containing costs through continuous improvement, while investing in key public services.
School Enrollment Growth Driving Increased Demand

*Enrollment numbers exclude DAFB.
*From school year 15/16 – 16/17, Special Education Enrollment grew by 8%.
Employee Counts Rising in our Public Schools as Enrollment Grows

*Non-Cabinet Agencies Except School Districts went from 3,710 to 3,853.
Medicaid Enrollment Growing as Health Costs Rise

*Fiscal Year 2017 represents estimated Monthly Average of those eligible for Medicaid.*
Imbalanced Revenue Portfolio

General Fund Revenue Portfolio Mix FY2018

- PIT & Franchise, 62.9%
- All Other Revenue, 37.1%

Annual General Fund Revenue Growth FY2017-FY2018

- PIT/Franchise: 2.9%
- All Other: -2.7%
- Total: 0.7%
Highlights of Governor Carney’s Financial Plan

- Limits Operating Budget Growth to 0.29% at $4.1B.
- Balanced long-term budget solution through shared sacrifice.
- Rebalances revenue portfolio to align with economic growth.
- Addresses core government service demands, while containing long-term costs.
- Studies cost savings and efficiencies through Government Efficiency and Accountability Review Board (GEAR).
- Sets aside $40.7M for Grants-In-Aid.
Governor Carney’s Fiscal Year 2018 proposal includes immediate action to reduce the cost of state government operations:

• Making Government More Efficient.
  – 4.5% total reduction to state agency discretionary funds.
  – $6.5 million: Adjust cost share in employee health plans.
  – $5.0 million: Eliminate 200 vacant positions.
  – $3.5 million: Eliminate double state share.
  – Ongoing commitment to study efficiencies and improvements in state government through the Government Efficiency and Accountability Review Board (GEAR) – created by Executive Order #4.
Governor Carney’s Plan Requires SHARED SACRIFICE

- Immediate Budget Reductions in the Fiscal Year 2018 Plan Include:
  - $25.0 million for Open Space, Farmland and the Energy Efficiency Fund until resources are available.
  - $5.0 million to reduce the Senior Property Tax Credit by $100.
  - $3.3 million in higher education reductions.
  - $2.6 million to reduce Medicaid dental reimbursements by 14%.
  - $1.2 million in reductions for fleet services and energy expenditures.
  - $594,300 for a reduction to pass-through programs.
  - $460,800 to reduce funding for Delaware Art, and Library Standards.
  - $125,000 to close the Polly Drummond Hill Yard Waste site.
  - $171,000 to eliminate the Board of Parole.
Key Investments: Public Education

• **Preserving Core Investments in Education**
  – $25.1 million for new teachers in Delaware classrooms.
  – $4.7 million to maintain investments in Early Childhood Education.
  – $1.0 million for Opportunity Grants for schools serving disadvantaged students.

• **Proposed Reductions**
  – $22.0 million reduction to Educational Sustainment Fund; Delaware school districts would receive *flexibility* to raise the match tax without referendum to cover reductions to the Sustainment Fund.
  – $15.0 million reduction to school district & charter school school operations.
Key Investments

• Promoting a Healthy Delaware
  – $11.8 million to *fully fund Medicaid* for low-income Delawareans, Delawareans with disabilities, and Delaware seniors for long-term care.
  – $1.0 million to add funding for *substance abuse treatment* services.

• Access to Quality Housing
  – $4.0 million to maintain funding for *affordable housing* through the Housing Development Fund.
  – $3.0 million for the State Rental Assistance Program, which targets assistance for specific groups with a high need, such as Delawareans with disabilities, those aging out of foster care, and homeless veterans.

• Addressing security in Delaware’s prisons
  – $4.5 million to *increase hazardous duty pay* for Delaware correctional officers.
  – $2.3 million for *75 new correctional officers* at James T. Vaughn Correctional Center and Baylor Women’s Correctional Institution.
  – $1.3 million for new *equipment and training* for correctional officers.
Rebalancing Delaware’s Revenue Portfolio

• Revenue proposal draws upon recommendations of the bipartisan “DEFAC Advisory Council on Revenues.”

• Structural reform will:
  – Make Delaware’s revenue portfolio more responsive to economic measures of demand for services.
  – Reduce revenue volatility while maintaining Delaware’s competitiveness with surrounding states.

• Balanced approach would equitably distribute costs.
## Funding Core Services – Revenue Plan

<table>
<thead>
<tr>
<th>Taxes &amp; Fees</th>
<th>Description</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate Franchise</strong></td>
<td>Create a two-tier maximum tax and true up other rates to reflect inflation.</td>
<td>$ 116.1</td>
</tr>
<tr>
<td><strong>Personal Income</strong></td>
<td>Major tax reform to simplify the tax structure and define taxable income more equitably.</td>
<td>$ 64.6</td>
</tr>
<tr>
<td><strong>Cigarette and Other Tobacco Products (OTP)</strong></td>
<td>Increase per pack and OTP rates. Treat e-cigarettes and moist snuff as OTP.</td>
<td>$ 16.0</td>
</tr>
<tr>
<td><strong>Total: Governor's Recommended Revenue Changes</strong></td>
<td></td>
<td>$ 196.7</td>
</tr>
<tr>
<td><strong>Total: Governor's Recommended Revenue Changes @ 98%</strong></td>
<td></td>
<td>$ 192.8</td>
</tr>
</tbody>
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Personal Income Tax – The Proposal

• **DEFAC Advisory Council:**
  – Eliminate itemized deductions.
  – Sync age-based tax preferences at 65, but on a rolling basis.

• **Our Proposal:**
  – *Effective January 1, 2018:* eliminate itemized deductions in Delaware and increase the standard deduction more than 50%.
  – Increase each tax bracket by 0.2 to 0.4 percentage points, with top rate rising to 6.8 percent.
  – Increase the eligibility age for additional personal credits and retirement income exclusions from 60 to 65 in 1-year increments.
Corporate Franchise Tax – The Proposal

• DEFAC Advisory Council:
  – Continued periodic adjustments when appropriate.
  – Focus on entities deriving greatest value from incorporation here.

• Our Proposal:
  – *Effective January 1, 2017*: create a second tier maximum tax at $250,000 for public companies with greater than $750M in revenue or assets and no less than $250M in revenue or assets.
  – Increase the first tier maximum tax from $180,000 to $200,000 to reflect inflation since the last increase in 2009.
  – Make inflationary adjustments to miscellaneous filing fees.
Tobacco Taxes – The Proposal

• **Our Proposal:**
  – *Effective August 1, 2017:* increase the tax on cigarettes from $1.60/pack to $2.60/pack.
  – Treat moist snuff and e-cigarettes as Other Tobacco Products (OTP).
  – Increase the tax on OTP from 15% of wholesale value to 30%.

• **The proposal will:**
  – Reduce long-term healthcare costs by increasing a key disincentive to smoking.
  – Maintain a measure of regional tax parity on cigarettes.
  – Tax all mediums of tobacco and like products equally.
Governor Carney’s Plan: A Balanced Solution

• General Fund Operating Budget - $4,096.1 million
  ✓ 0.29% overall growth from FY 2017.
  ✓ Plan maintains investments in key areas such as public education, health, and safety.
  ✓ Reduces discretionary funding through shared sacrifice, controls cost growth.

• Grants-In-Aid - $40.7 million
- End of Presentation -