

State of Delaware
Office of the Governor
Fiscal Year 2014
Financial Overview
January 24, 2013

Today's Presentation

- **Budgeting Principles.**
- **Operating Budget Overview.**
 - Efficiencies and Reductions.
 - Demands on the Budget.
 - Out Year Forecast.
- **Revenue Stability.**

Budgeting Principles

- **Invest in Priorities:**
 - Job Growth.
 - Stronger Schools.
 - Governing Responsibly.
- **Keep Core Commitments:**
 - K-12 and Higher Education.
 - Public Safety.
 - Healthcare.
- **Ensure Fiscal Responsibility:**
 - Creating a balanced budget despite fiscal challenges.
 - Maintaining AAA-bond rating.
 - Fully funding Rainy Day Fund.
 - Only appropriating 98% of revenue.
 - Adhering to three-part debt limit.

Efficiencies and Reductions

- Eliminated 1,085 state employee positions while addressing increased demand for state services.
- As of January 1, 2013, there are 518 fewer full-time state employees working in the Governor's executive branch agencies* compared to March 2009.
- Enacted state employee health and pension reform.
 - *\$4.4 million savings in FY 2013*
 - *Over \$480 million in savings over a 15-year period.*
- Reduced state's energy costs through electricity reverse auction.
 - *Estimated \$3.0 million savings per year while meeting EO 18 goal of 35% renewables.*
- Reduced size of state fleet by 20% (895 vehicles).
- Moved 70% of the state's servers to the virtual Cloud.
- Implemented a Managed Service Provider program to address technology staffing needs.
- Reduced costs by renegotiating leases.
 - *Total savings through FY 2013 of \$4.87 million.*
- Renegotiated pharmacy contract for prescription drugs to lower costs and maximize prescription drug rebates.

*Does not include Other Elective and Legal

Efficiencies and Reductions

- Consolidated DNREC from six divisions to three offices.
- Consolidated the following areas within the Department of State:
 - Merit Employee Relations Board into Public Employment Relations Board;
 - Commission for Women and the Office of Human Relations;
 - Delaware State Historic Preservation Office and Delaware State Museums into the Office of the Director; and
 - Delaware Veterans Memorial Cemetery and Veterans Cemetery Georgetown into Delaware Commission of Veterans Affairs.
- Consolidated the Division of State Service Centers from four units to one unit in the Department of Health and Social Services.
- Consolidated IT in 10 Executive Branch agencies.
- Consolidated Department of Education from four branches to three.
- Relocated Long Term Care Facilities to Division of Aging and Adults with Physical Disabilities.

Efficiencies and Reductions

- Moved state tax filing systems from paper-based to online.
- Maximized in-house resources and services at the Department of Services for Children, Youth and Their Families.
- Reduced state agency printing and advertising expenditures.
- Reduced EZPass Customer Service Center hours and automated 24/7 support services.
- Closed a portion of the Multipurpose Security Building at Sussex Correctional Institution.
- Installed kiosks at DMV facilities.
- Implemented Medicaid Managed Long Term Care.
- Reduced census in DHSS Long Term Care Facilities.

Available Resources Insufficient to Fund FY 2014 Costs

December FY 2014 DEFAC Resources (@98%)	\$	3,753,600.0
FY 2013 Appropriations		(3,684,400.0)
Reductions/Reallocations/Special Funds		<u>29,549.1</u>
Funds Available	\$	98,749.1

FY 2014 Costs

Personnel		<u>(40,384.5)</u>
Employee/Retiree Health	(15,406.6)	
Projected employer pension contribution	(8,103.5)	
Public Education Steps	(8,500.0)	
Annualize the education paraprofessional pay plan	(1,540.3)	
Annualize funding for 2 Superior Judges and staff	(773.4)	
Other Steps/Annualizations/Personnel	(6,060.7)	
Medicaid		<u>(35,800.0)</u>
Debt Service		<u>(19,853.6)</u>

Available Resources Insufficient to Fund FY 2014 Costs

Health and Social Services		(20,018.4)
Maintain programs funded through Tobacco Funds	(7,486.5)	
Developmental Disabilities Services new placements	(6,811.9)	
Special School Graduates		
Community-Based services for individuals with serious and persistent mental illness	(4,327.0)	
Home Delivered Meals/Community Food/Birth to 3	(1,393.0)	
Education		(13,460.5)
Public Education - Projected growth of 110 units	(8,770.3)	
Pupil transportation formula increases	(2,269.9)	
Full Day Kindergarten for Indian River District	(1,998.8)	
Early Childhood Assistance Program	(421.5)	
DSCYF		(13,252.0)
Family and Children Tracking System (FACTS II)	(3,750.0)	
Volume increases for Child Welfare services	(3,462.0)	
Expand in-school behavioral health services	(3,300.0)	
Statewide targeted prevention programs for youth	(2,225.0)	
Youth aging out of foster care	(515.0)	
Statewide Technology		(6,000.0)
Safety and Homeland Security		(830.5)
Six State Police Troopers	(530.5)	
Accelerate the development of school safety plans	(300.0)	
Other		(5,194.4)
Total FY 2014 Costs		\$ (154,793.9)

New Initiatives Represent Minimal Budget Growth

Expand in-school behavioral health services	\$	3,300.0
Statewide targeted prevention programs for youth		2,225.0
DSCYF - Youth aging out of foster care		515.0
Delaware National Guard Youth Challenge		93.0
Accelerate the development of school safety plans		300.0
Six State Police Troopers		530.5
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	\$	6,963.5

New initiatives represent just 0.194% of budget growth

The State of the State's Finances

Estimating the FY 2014 Gap

FY 2014 Cost Drivers	\$ (154.8)
Funds Available	<u>98.8</u>
Subtotal: Appropriation Surplus/(Deficit)	\$ (56.0)

Figures above expressed in millions.

The State of the State's Finances

Addressing the FY 2014 Gap

Subtotal: Appropriation Surplus/(Deficit)	\$	(56.0)
Agency and Program Cuts		<u>28.7</u>
Total: Appropriation Surplus/(Deficit)	\$	(27.3)

Figures above expressed in millions.

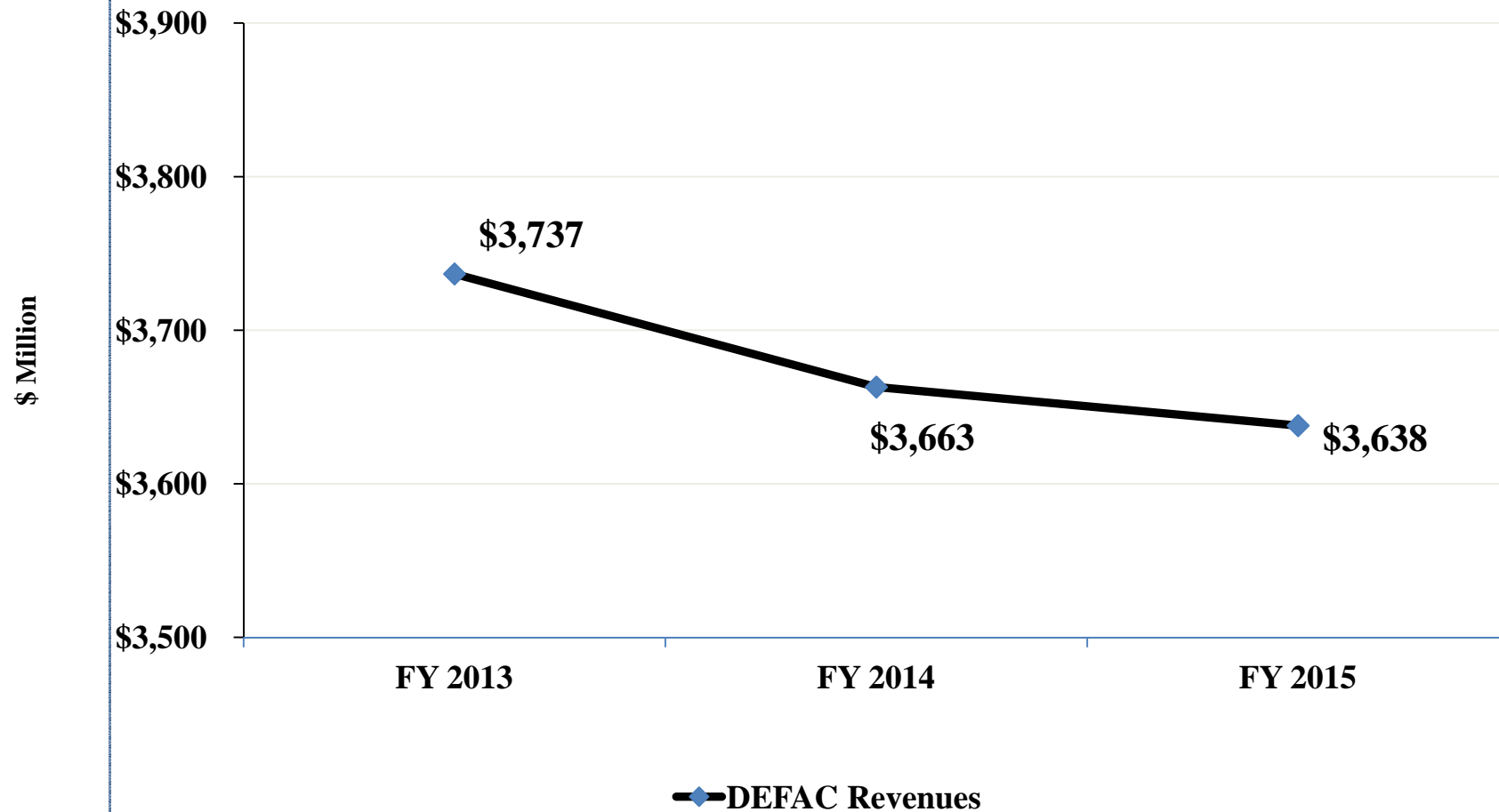
FY 2015 Shortfall Remains a Challenge

		<u>FY 2015</u>
December DEFAC Resources (@ 98%)	\$	3,650.0
FY 2014 Appropriations		<u>(3,805.0)</u>
Funds Available	\$	(155.0)
FY 2015 Cost Drivers*		<u>(111.4)</u>
Surplus/(Deficit)	\$	(266.4)

*** Assumes 3% increase in budget appropriation.**

Figures above expressed in millions.

Current DEFAC Projections



Tax Policy Principles

AAA-rating:

- DEFAC provides objective, nonpartisan forecasts.
- Rapid amortization.
- Defeasement of high interest bonds.
- Comprehensive and collaborative: match one-time revenues to one-time expenditures.
- Effective: recognized among top states in tax administration.
- Competitive: 14th best state business tax climate (Tax Foundation).
- Fair: Top four in progressivity (Institute on Taxation and Economic Policy).

Addressing Tax Policy

	Full Repeal of Sunsets		Governor's Recommended Revenue Stability	
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>
Personal Income Tax	\$ 30.3	\$ 75.7	\$ 24.7	\$ 61.5
Gross Receipts Tax	3.3	9.9	0.2	0.2
Corporate Franchise Tax	-	80.0	-	80.0
Estate Tax	<u>3.0</u>	<u>15.0</u>	<u>3.0</u>	<u>15.0</u>
Total	\$ 36.6	\$ 180.6	\$ 27.9	\$ 156.7

Figures above expressed in millions.

Personal Income Tax Proposal

Since 2009:

- Cut top rate from 6.95% to 6.75%.

Governor's Proposal

- Cuts current rate from 6.75% to 6.6%.
- Less than 20% of Delawareans were affected by 2009 law.
- Maintains competitive position with surrounding states.
 - New Jersey = 8.97%
 - Maryland (Including counties) = 8.625%
 - Washington, D.C. = 8.5%
- Effective Date: January 1, 2014

Gross Receipts Tax Proposal

Since 2009:

- 3% rate reduction across the board.
- Increased monthly exclusion by 25%.
 - 330 businesses removed from the tax rolls.

Governor's Proposal

- Additional 1% rate reduction across the board.
- Additional cut to manufacturing tax rate.
- Continue increased monthly exclusion = \$100,000 per month.
- Effective Date: January 1, 2014

Gross Receipts Tax Proposal

Gross Receipts Tax Examples

Example 1: Annual Sales = \$1.2 Million

- Original 2009 Sunset law Tax Liability = **\$922**
- Governor's Proposal Tax Liability = **\$0**

Example 2: Annual Sales = \$2.5 Million

- Tax Liability - Governor's Proposal is **12.45% lower** than Original 2009 Sunset law.

Corporate Franchise and Estate Tax Proposals

Corporate Franchise Tax

- New rates fully absorbed into cost of doing business.

Governor's Proposal

- Lift Sunset.
- Top Tax rate remains at \$180,000 annually.

Estate Tax

Since 2009:

- Exemption increased from \$3.5 million to \$5.12 million.

Governor's Proposal

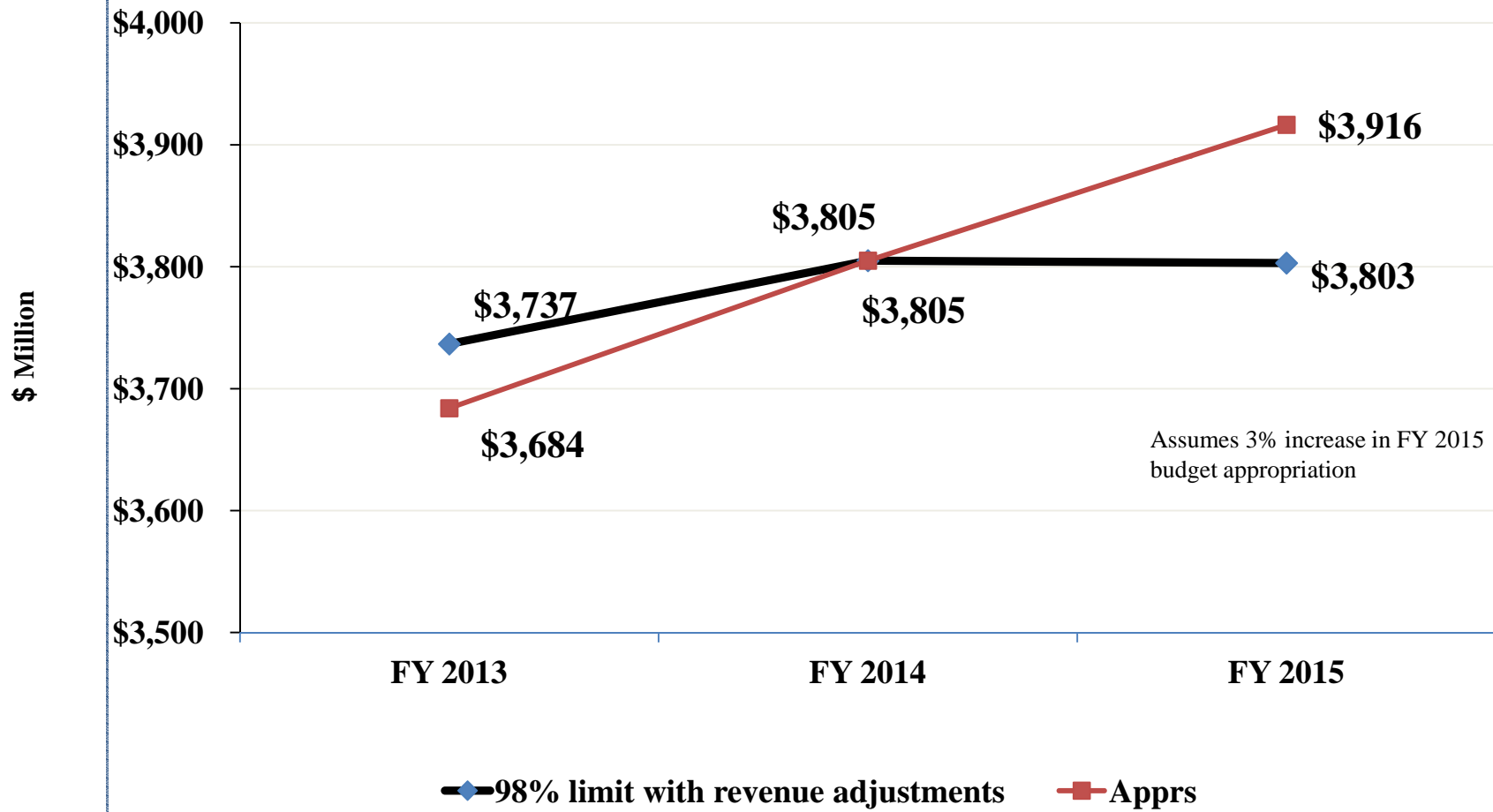
- Lift Sunset.
- Farms in Aglands Preservation would still be excluded.

A Balanced Plan

Subtotal: Appropriation Surplus/(Deficit)	\$	(56.0)
Agency and Program Cuts		28.7
Revenue Stability		27.3
Total: Appropriation Surplus/(Deficit)	\$	0.0

Figures above expressed in millions.

Revised Outlook



Budget Pressures Remain

- No general salary increases.
- No provider increases.
- Reduced Transportation Trust Fund.
- Reduced Open Space.
- Reduced Farmland Preservation.
- Reduced funding for Municipal Street Aid and Community Transportation Fund.

FY 2014 Recommended Financial Plan

General Fund Operating Budget	\$3,712.0 million
Transportation Trust Fund Budget	\$339.5 million
Grants-in-Aid	\$43.0 million
Bond and Capital Improvements Act	\$423.5 million
- State Capital Projects.....	\$239.3 million
- Transportation Projects.....	\$184.2 million



Questions?