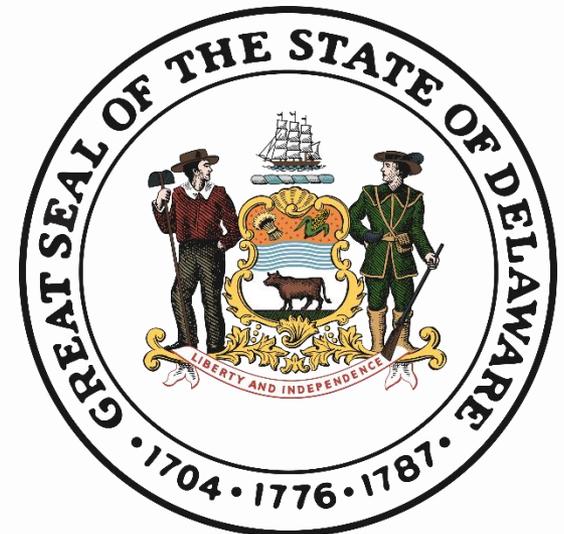
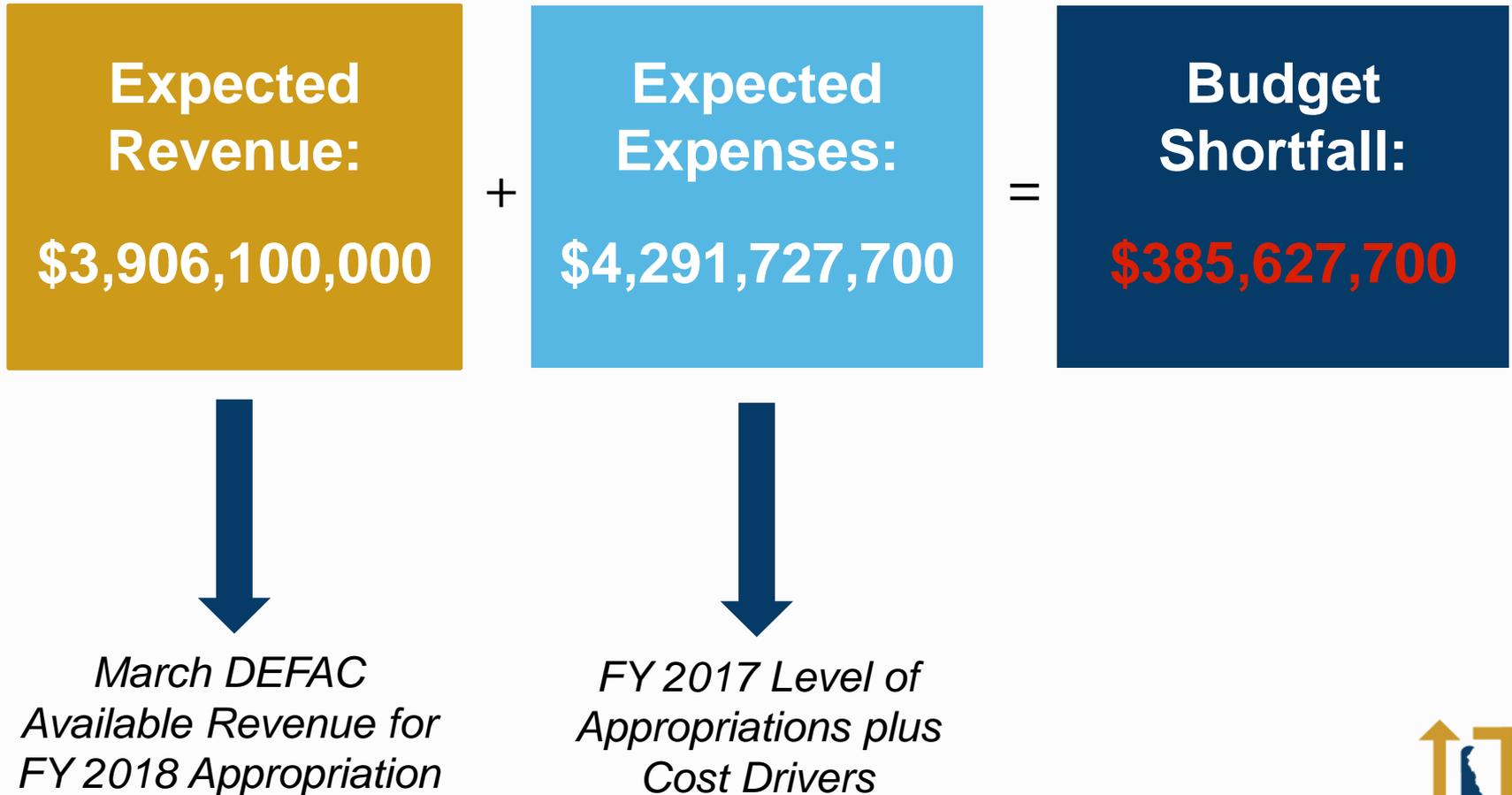


State of Delaware
**BUDGET RESET:
GOVERNOR CARNEY'S
BUDGET PROPOSAL**
FOR FISCAL YEAR 2018
March 23, 2017



\$385.6 Million Budget Gap for FY 2018

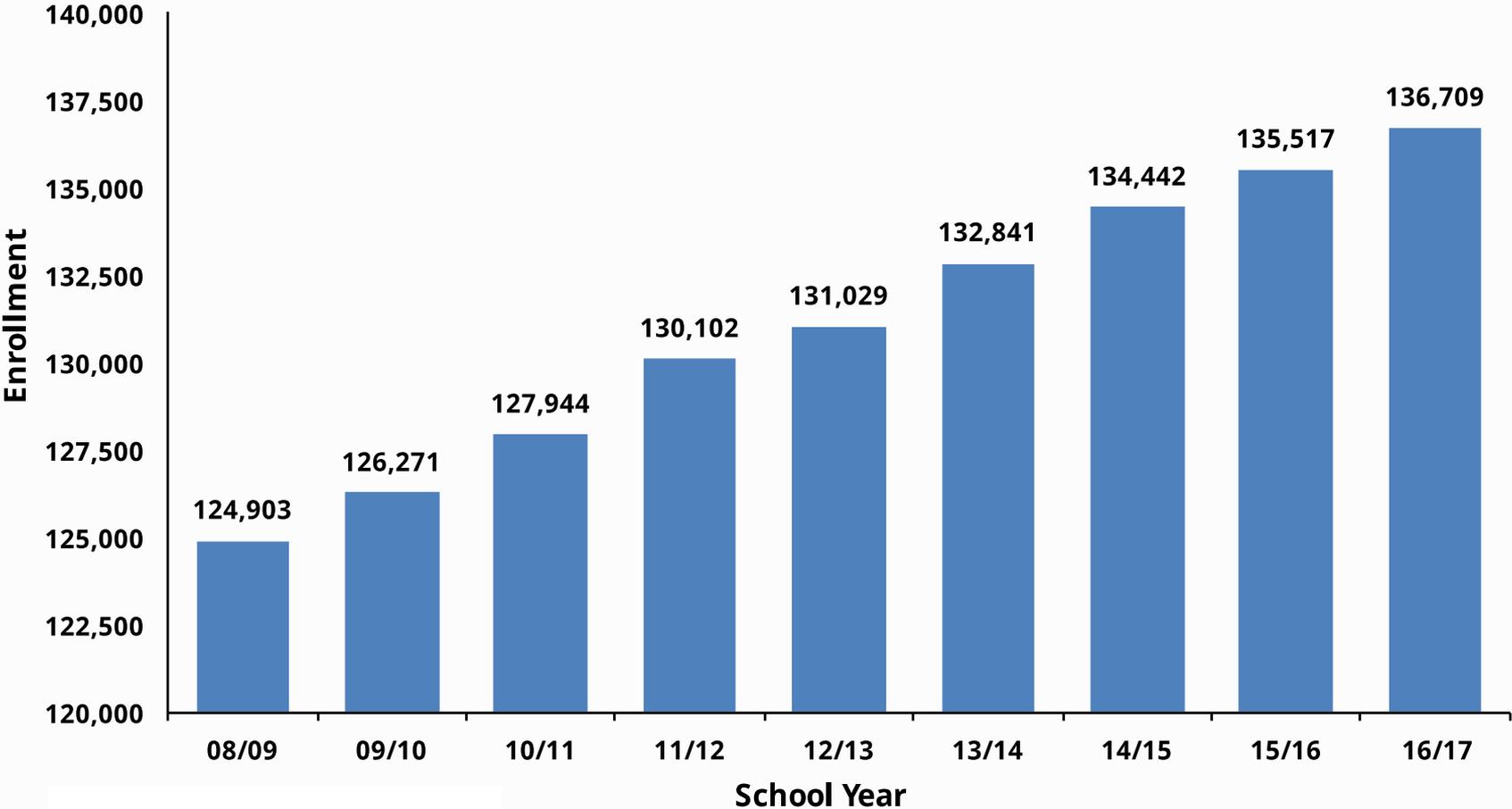


Governor Carney's Key Financial Principles

- ✓ **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.**



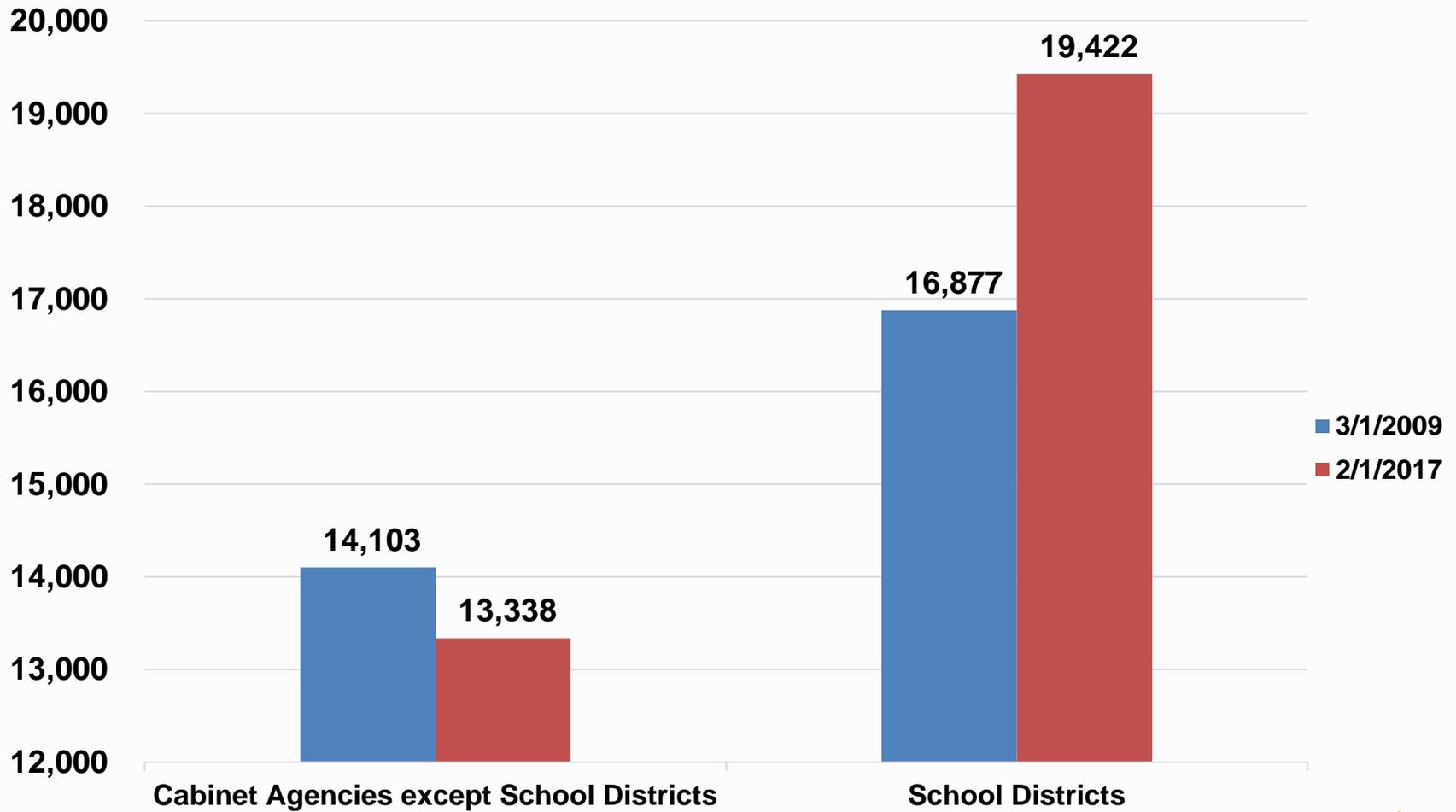
School Enrollment Growth Driving Increased Demand



*Enrollment numbers exclude DAFB.
*From school year 15/16 – 16/17, Special Education Enrollment grew by 8%.



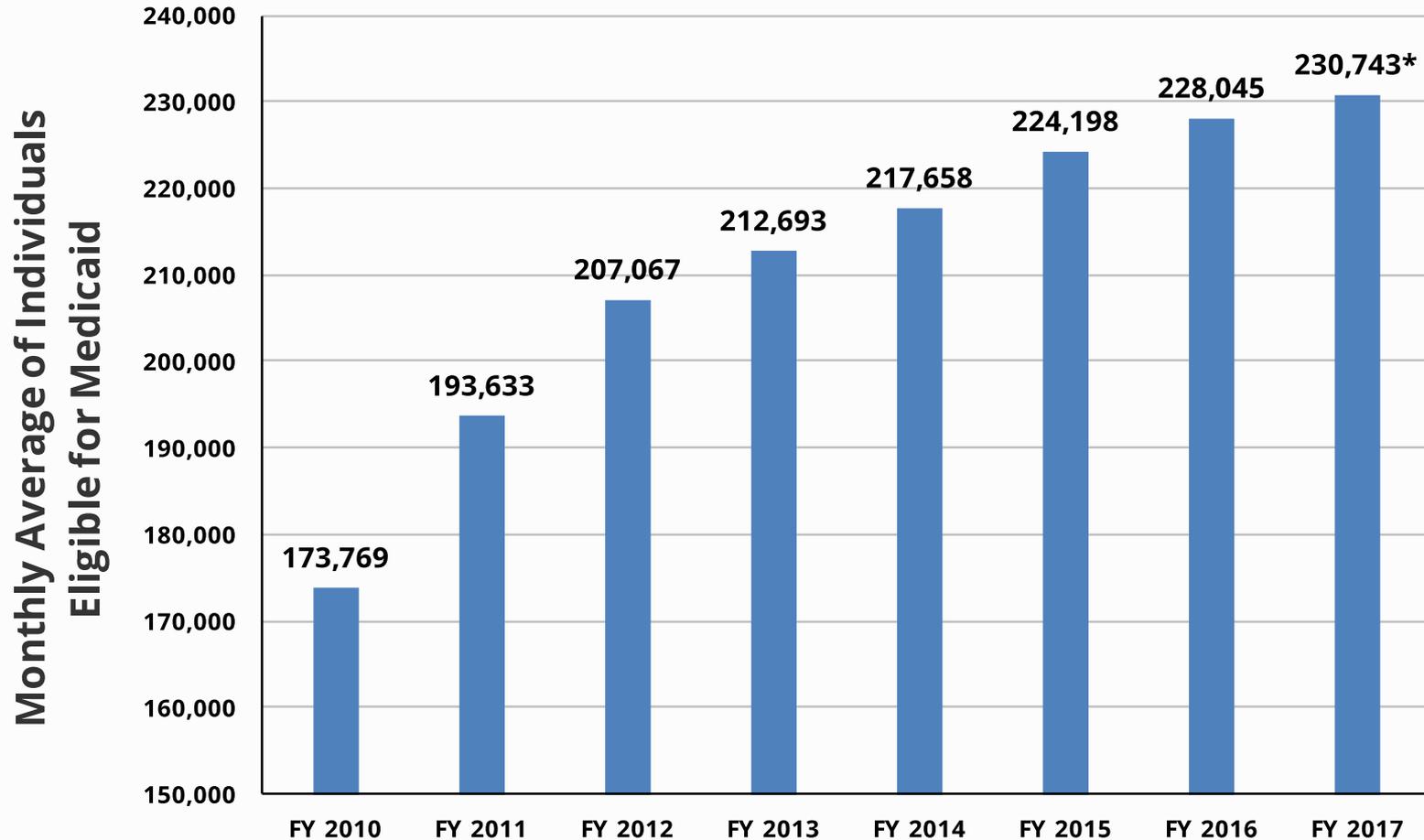
Employee Counts Rising in our Public Schools as Enrollment Grows



*Non-Cabinet Agencies Except School Districts went from 3,710 to 3,853.



Medicaid Enrollment Growing as Health Costs Rise

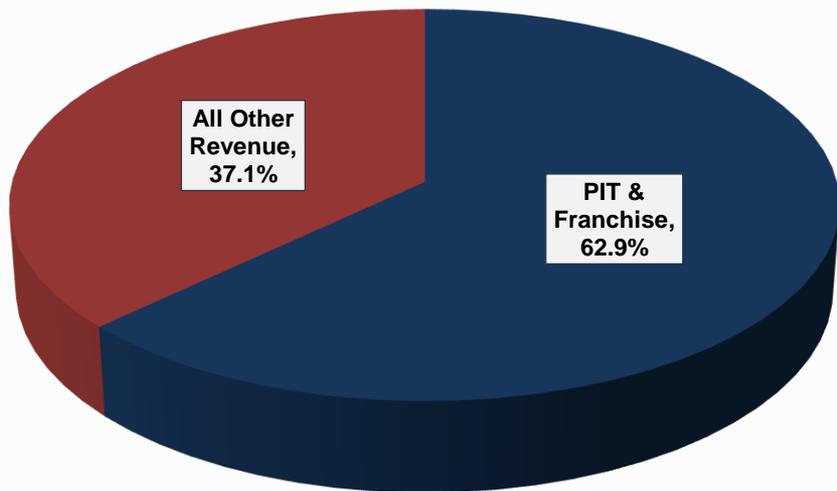


*Fiscal Year 2017 represents estimated Monthly Average of those eligible for Medicaid.

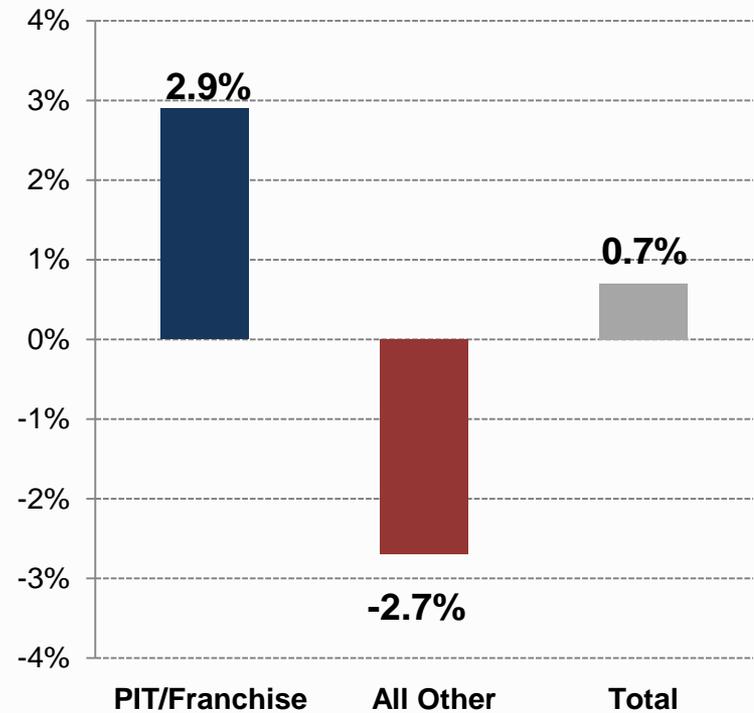


Imbalanced Revenue Portfolio

General Fund Revenue Portfolio Mix FY2018



Annual General Fund Revenue Growth FY2017-FY2018



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 Plan Requires **SHARED SACRIFICE**

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 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

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



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* -

