

DANA Budget Overview

Robert L. Scoglietti
Office of Management and Budget
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Agenda

- Economy
- State budget issues
- Budget Stabilization
- Questions

National outlook....

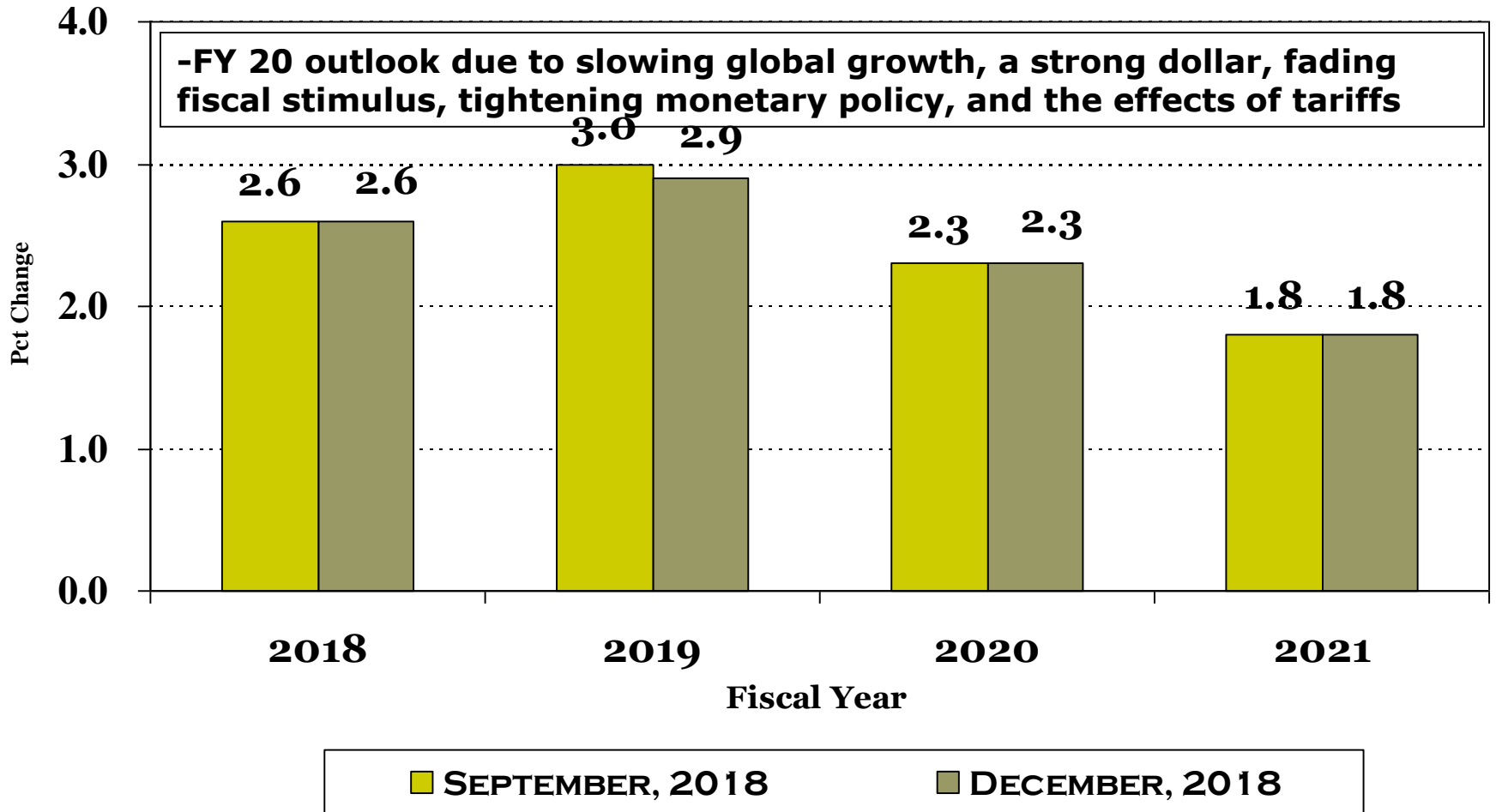
- Second longest economic expansion on record, trailing by only five months the 1990s expansion as of December 2018.
- Economic and revenue growth in the current expansion has been weaker compared to previous expansions
- Year-over-year growth in state government tax revenues was strong at 7.8 percent in the second quarter of 2018.
 - State personal income taxes showed double-digit growth for three consecutive quarters.
 - State corporate income taxes showed double-digit growth in the second quarter of 2018 after exhibiting a decline in the first quarter of 2018

National outlook....

- Preliminary state government tax data for the third quarter of 2018 indicate weakness in personal income tax collections.
- Double-digit growth in personal income tax collections in the final quarter of 2017 and first half of 2018 was mostly driven by the stronger growth in estimated and final payments in response to the TCJA.
- The weakness in income tax collections in the third quarter of 2018 is partially attributable to the disappearing impact of incentives created under the TCJA to accelerate payments of state and local income taxes into calendar 2017

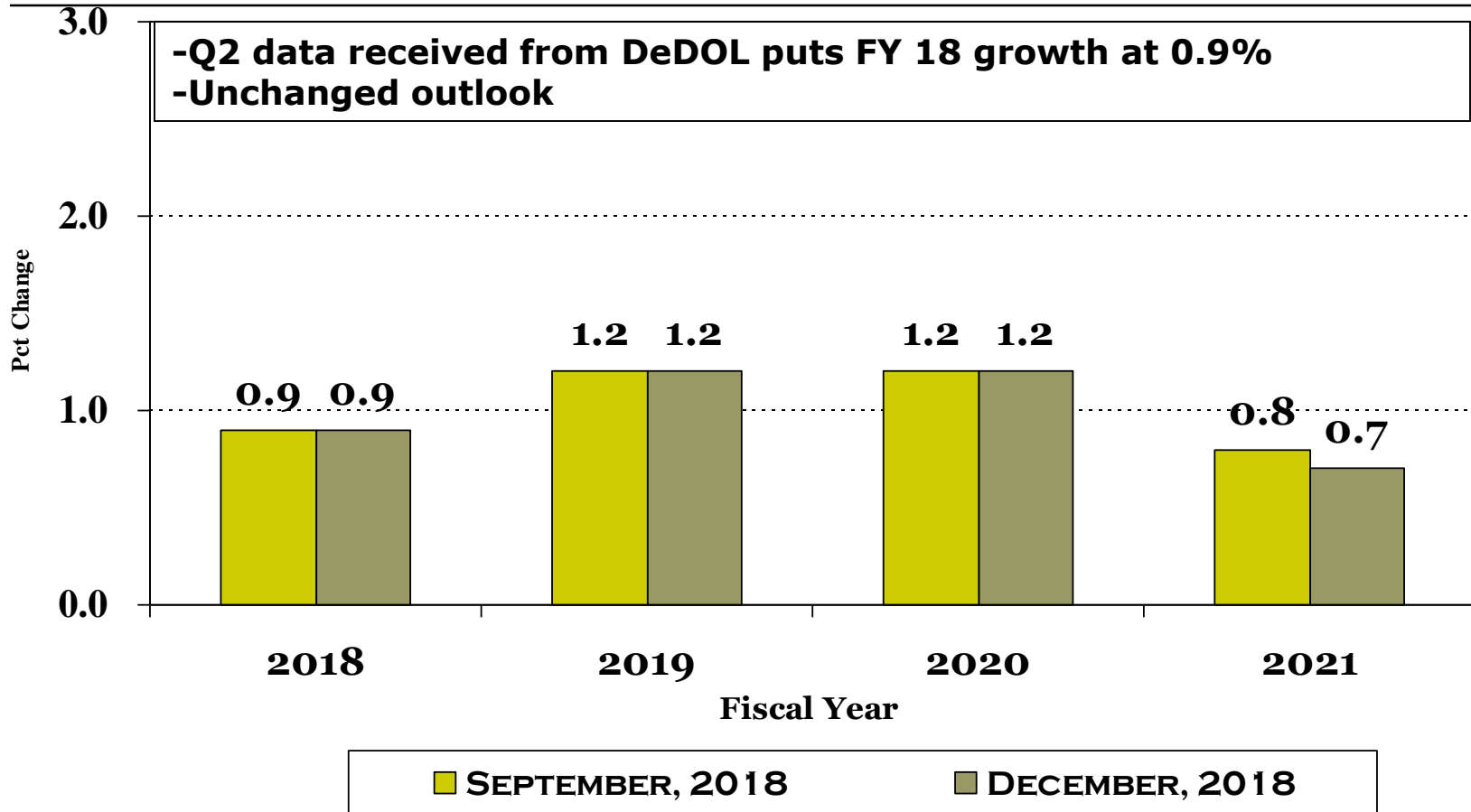
Source: Tax Policy Center, December 2018

Real GDP



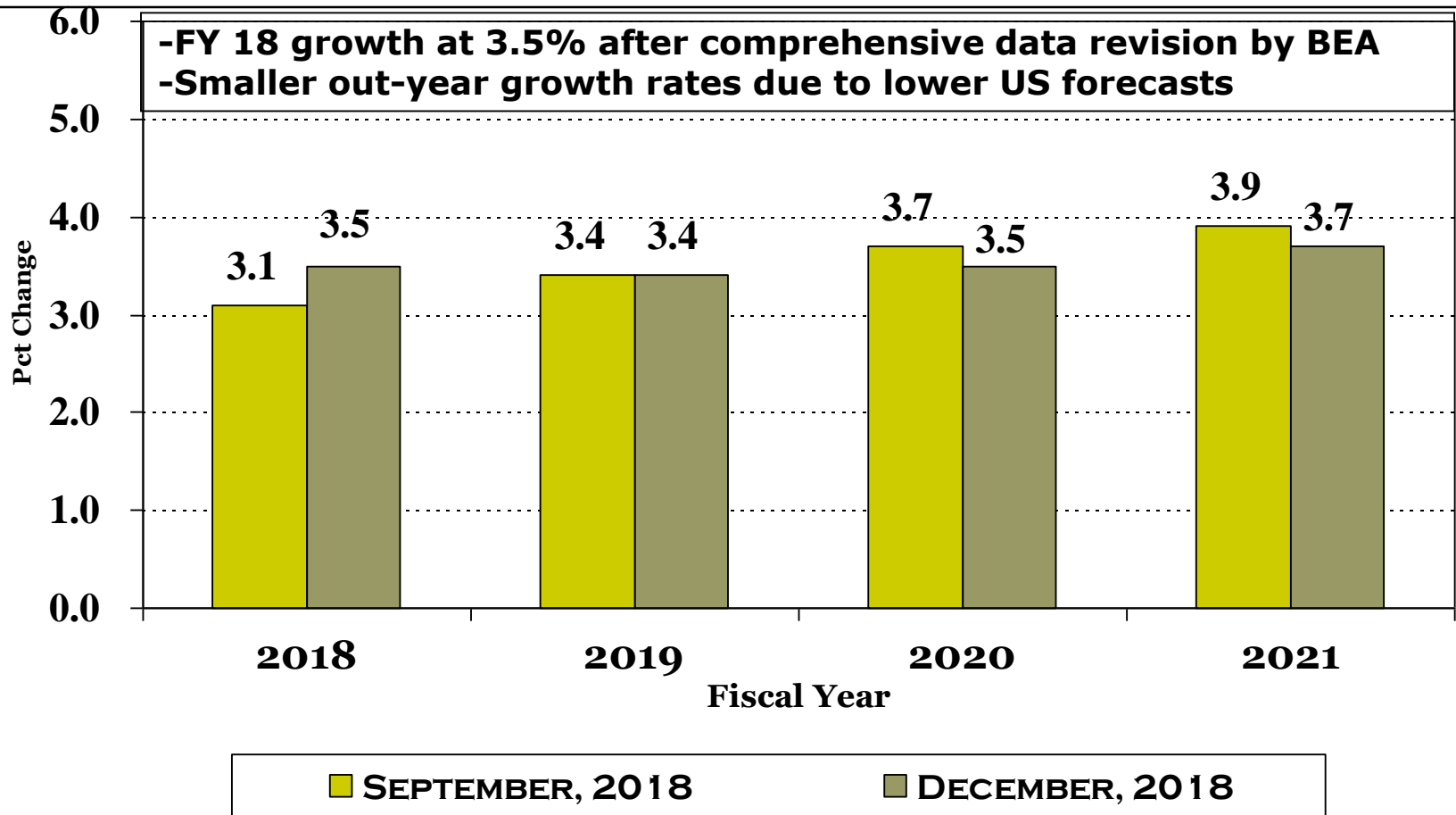
Source: IHS Markit

Delaware Employment



Source: BLS, DE Labor Department and Department of Finance

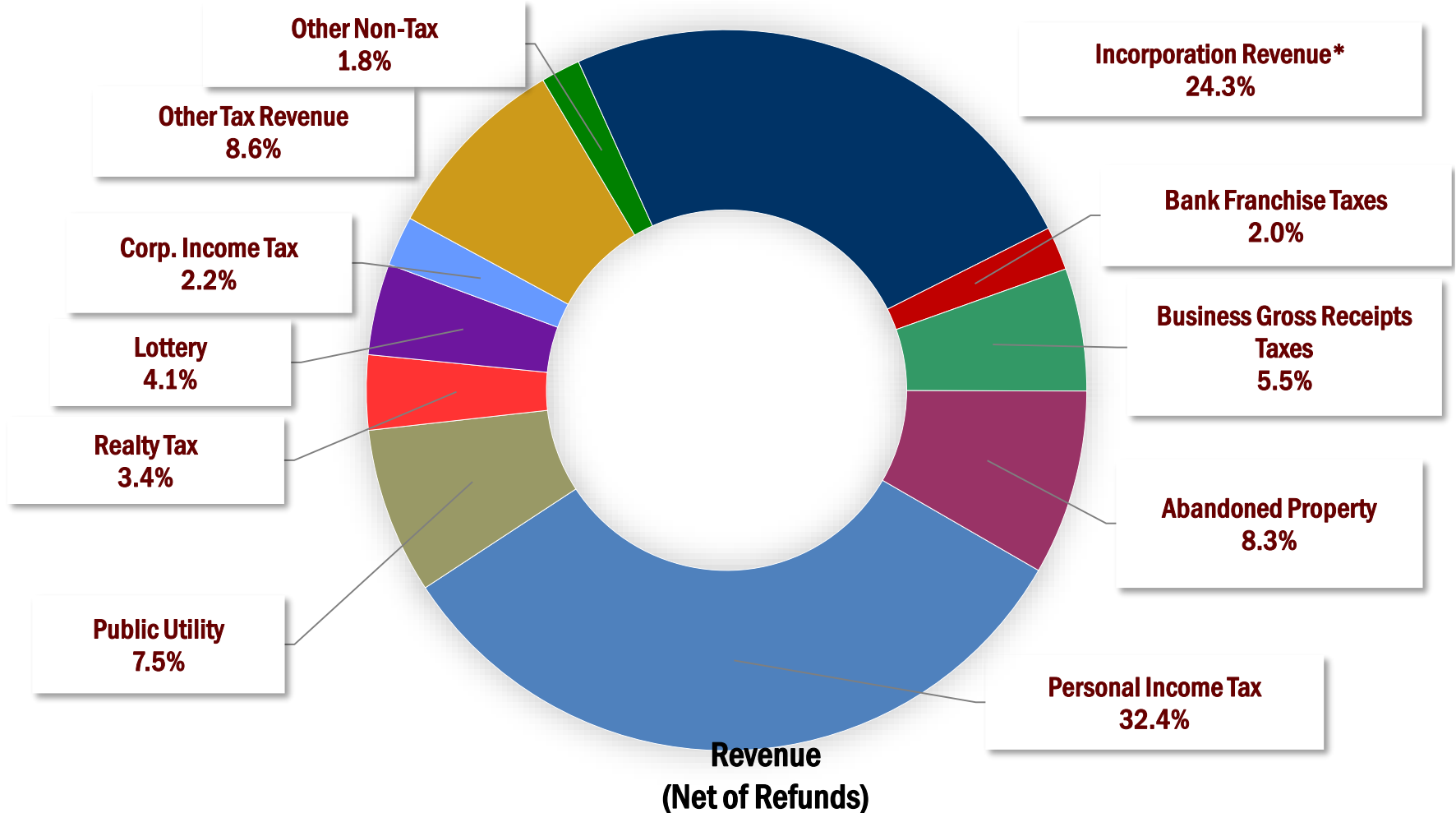
Delaware Wages & Salaries



Source: BEA and Department of Finance

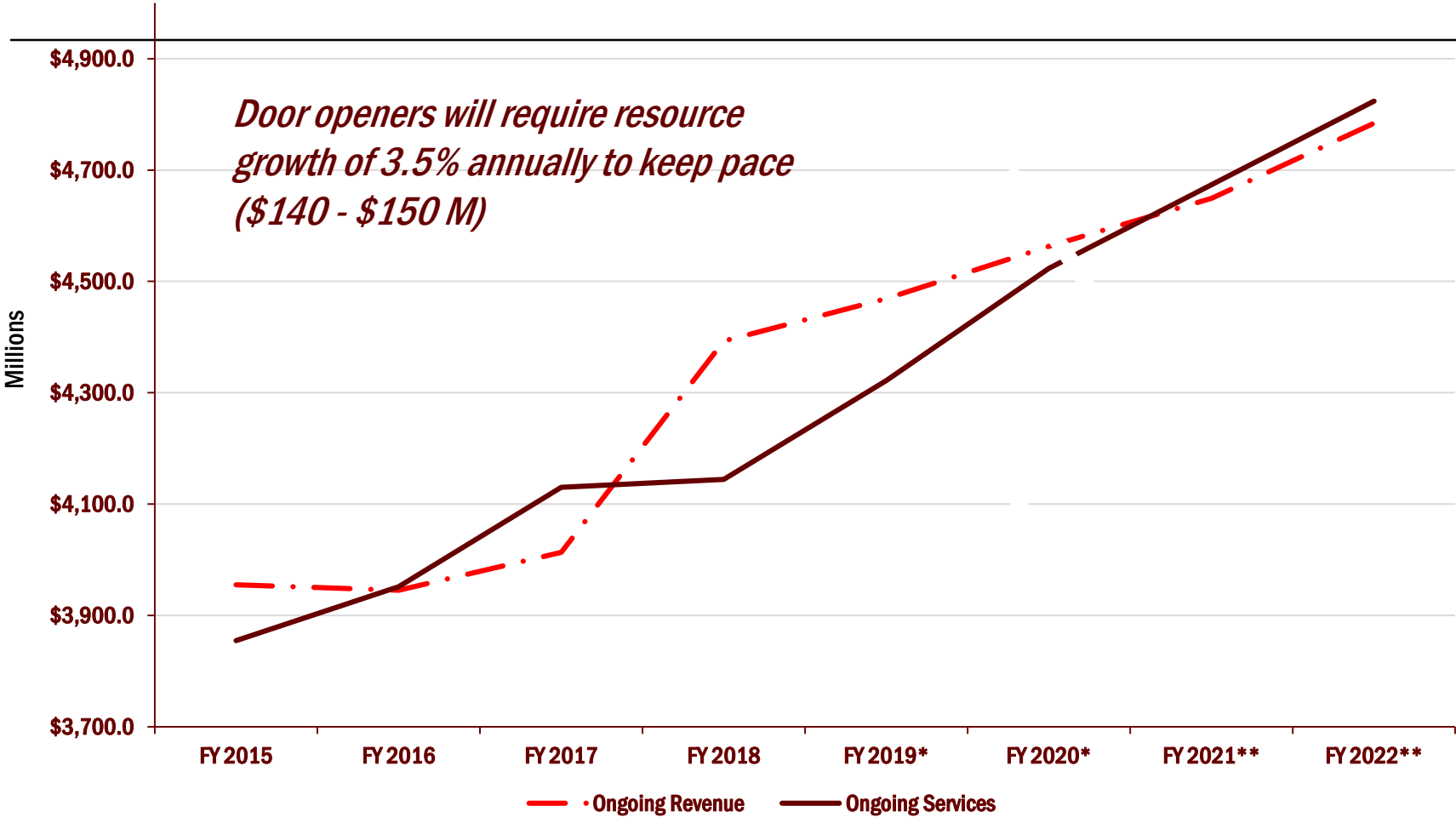
Budget issues

Delaware FY 2020 Revenue Forecast



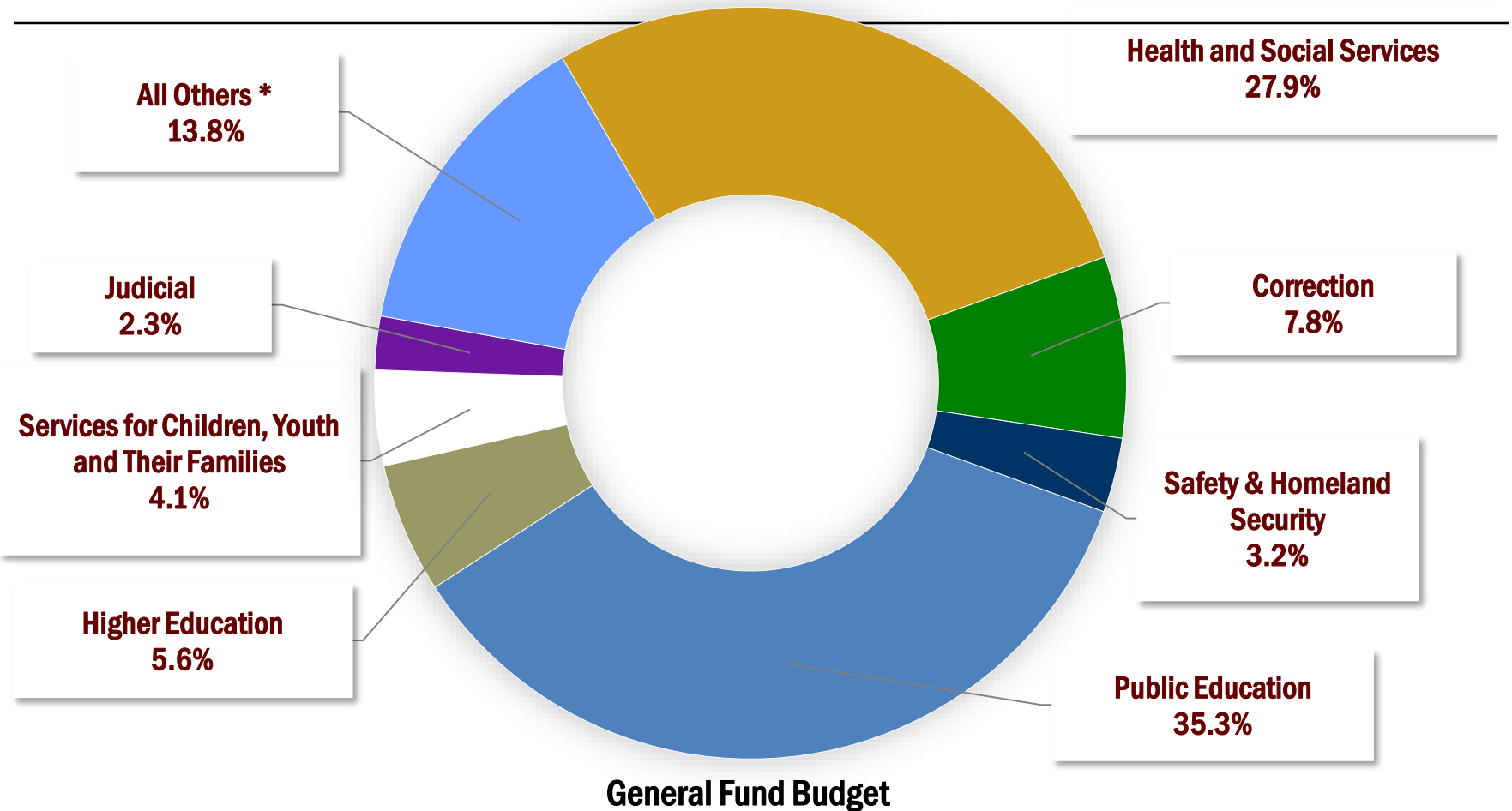
*Includes Corporate Franchise Taxes, Business Entity Fees, and Limited Partnerships & Limited Liability Corporations

Budget Sustainability – Considering future fiscal years



* DEFAC Estimates - December 2018
 ** DEFAC Estimates - September 2018

GOVERNOR'S RECOMMENDED FY 2020 OPERATING BUDGET



*Includes Contingencies and One-Time Items



Highlights of Governor Carney's Financial Plan

- › Allocates surplus revenues into **one-time investments**
- › Funds **long-term liabilities**
- › Restores earmarked revenue for **farmland preservation and open space**
- › **Adheres to appropriation benchmark consistent with Executive Order 21**
- › After adjusting for one-times and legislative adds, keeps setaside for Grant in Aid flat

GOVERNOR'S RECOMMENDED FY 2020 FINANCIAL PACKAGE

- **General Fund Operating Budget** **\$4,433.1 M**
 - GF Operating Budget Growth 3.8%
- **Grants-in-Aid** **\$48.4 M**
- **Bond and Capital Improvements Act** **\$678.6 M**
 - State Capital Projects **\$345.7 M**
 - GO Bonds **\$227.9 M**
 - Cash **\$95.0 M**
 - Other **\$22.8 M**
 - Transportation **\$332.9 M**
- **One-Time Supplemental** **\$39.1 M**

*The FY 2020 Financial Plan sets aside **\$92.1 million** over and above the constitutionally mandated set asides.*

LONG TERM FINANCIAL SUSTAINABILITY

- ❑ Based on Executive Order #21
- ❑ Addresses structural spending and revenue problems
- ❑ Amount available for the budget is based on an index calculation from DEFAC **relative to the overall economy** to help reduce volatility of budget process
- ❑ The amount of extra revenue that will go into **one-time investments and reserve fund** is based on DEFAC's index calculation.
- ❑ Helps minimize negative impact of arbitrary program cuts and excessive tax increases due to revenue volatility and economic downturns
- ❑ Unlike last year's proposed amendment, not binding upon the General Assembly



EDUCATION HIGHLIGHTS

\$60M

Opportunity Funding

\$1M

Yearlong
Residencies

\$3.2M

STARS

\$850,000

Delaware Literacy Plan

\$560,000

Middle School Math
Coaches

\$500,000

Expand High-Needs
Educator Student
Loan Forgiveness

BUDGET HIGHLIGHTS

\$9.9M

DOC Year 2
recommendations
(operating and
capital)

\$2.9M

Family Services
caseworkers

\$3.2M

CHIP

\$3.8M

Purchase of Care provider
increase

\$2M

Adult disability
provider increase

\$800,000

Labor Law
Enforcement staffing

DOOR OPENERS

\$15M

Medicaid
growth

\$19.5M

K-12
enrollment growth

\$8.9M

Pupil
Transportation

\$14.6M

Steps
(Ed, DSP, DTCC, agency)

\$1.1M

DOC Inmate Medical/
Pharmacy inflation

\$2.2M

Debt Service



CAPITAL HIGHLIGHTS

\$12.5M

Strategic Fund

\$15M

Higher Education
Economic
Development Fund

\$10M

Transportation
Infrastructure
Investment Fund

\$137.5M

School Construction
and School Safety

\$17.5M

Affordable
Housing/Strong
Neighborhoods/
Downtown Development
Districts

\$21M

Higher Education

Outstanding/Long Term Issues

- Shutdown ?
- New General Assembly members
 - New JFC/Bond Bill committee members
- Stabilization - Adherence to benchmark?
- Revenues lag downturn
- Continued expenditure pressure
- A number of fiscal issues for debate (pre-K special ed unit, water, DTCC infrastructure fund)



Conclusions

- Governor Carney's budget proposal consistent with EO 21
- Surplus non-appropriated funds serve as an additional hedge to potential future downturns in forecast
- New legislative members provide an opportunity for advocating for funding

Schedule moving forward

- Joint Finance Committee (JFC) Hearings Jan 29 – Feb 21.
- Next DEFAC – March 18
 - Current year/next year forecasts
 - 3 additional (3rd Monday in April, May, June)
- Bond Bill Hearings April 1 – April 4.
- JFC Mark up begins – May 20

Questions??
