



## **NEWS:**

# **Republican Leaders React to Proposed \$4.128 Billion State Operating Budget**

**January 13, 2017** – Governor Jack Markell released his recommended state operating and capital budgets Thursday afternoon. The spending plans are for Fiscal Year 2018, which begins July 1st.

The budgets are the last of the Markell administration, which concludes on Tuesday with the inauguration of Governor-elect John Carney.

The proposed [\\$4.128 billion state operating budget](#) represents an increase of about 1.1-percent over the current budget. However, anemic state revenue growth, combined with higher state expenses, produced a projected budget shortfall of \$350 million.

By law, Delaware must pass a balanced budget. The Markell administration plan bridges the gap with a heavy reliance on \$216.6 million in higher taxes and tax revenue shifts. Among those increases are a hike in the Franchise Tax on large companies; changes to the Personal Income Tax, including an increase in the top bracket; a 33-percent jump in the Realty Transfer Tax; and a Cigarette Tax increase of \$1 a pack (to a total \$2.60 per pack).

The plan would also transfer to the state one-sixth of the Realty Transfer Tax revenue currently flowing to the counties' coffers.

Additionally, the proposal calls for ending the state's cost-share of county paramedic services; eliminating a property tax subsidy for senior citizens; cutting aid for non-profit agencies; and slashing the state's cost-sharing on future school construction.

State House Republican leaders -- State House Minority Leader Danny Short (R-Seaford) & State House Minority Whip Deborah Hudson (R-Fairthorne) -- were quick to criticize the proposals.

"You could suffer blunt force trauma reading this plan," Rep. Short said "It's both disturbing and aggressive, containing measures that would likely not have been proposed had the Markell administration not been in its final days."

Rep. Short said the plan is unlikely to have a lot of supporters since it negatively impacts senior citizens, county government, smokers, school districts, and anyone paying property taxes and/or income taxes.

Among the concerns cited by Reps. Short & Hudson:

- The plan relies disproportionately on tax increases. More than 60% of the gap is bridged with proposed tax increases or tax revenue shifts.
- The base budget reductions to state agencies in the operating budget total \$31.8 million, which is only about 9-percent of the \$350 million revenue shortfall.
- The state's problems become the counties' problems in this plan. The state would take \$11 million in revenue from the Realty Transfer Tax that is currently flowing to the counties. At the same time, the counties are being asked to pick up \$10.8 million in paramedic expenses previously paid by the state.
- Public schools will have a more difficult time getting built under the plan. One of the proposals calls for capping the state's share of new school construction at 50-percent. (Presently, the state picks up between 60 and 80-percent of the tab.) Capital school referenda already have a hard time winning approval, and such a proposal would significantly raise the bar.



State Rep.  
Deborah Hudson

Both Reps. Short & Hudson note that the budget is going to be a moving target. By law, the state cannot spend any more than 98-percent of projected revenues, and there will be four more state revenue forecasts between now and the start of the new fiscal year. The funding gap will go up or down as a result of those projections.

"We will have four more meetings of the Delaware Economic and Financial Advisory Council, which checks our state revenues: March, April, May, and June," Rep. Hudson said. "Hopefully those are eventful and we see some revenues that will help with this budget problem. In any case, we still need to be prepared. This is a very serious deficit."

Reps. Short and Hudson added that a new state budget will not need to be enacted until June 30th, five-and-a-half months after Gov. Carney takes office. They said they are optimistic that the Carney administration will work with the General Assembly to build a consensus on how to meet Delaware's fiscal challenges.

"I'm hopeful that Gov. Carney will bring in cabinet secretaries that will work with legislators to really sit down and come to an agreement on what's best for the agencies to save money so we can make up this \$350 million budget deficit," Rep. Hudson said.