



NEWS:

Governor Unveils Budget Proposals to Bridge \$385 Million Gap

MARCH 24, 2017 – Speaking at the Delaware Public Archives Thursday afternoon, Governor John Carney presented his proposals for closing a large projected gap in the next state operating budget.

That structural shortfall grew to \$385 million on Monday as the group responsible for forecasting state revenue predicted a total drop of \$35 million for the current and upcoming fiscal years. Three more forecasts will be made before lawmakers enact a new spending plan at the end of June.

As he has done in numerous community meetings to discuss the state's fiscal challenges, Gov. Carney stressed in his presentation that his solutions would share the burden and the pain.

The plan balances the budget for the fiscal year that begins July 1st with a mix of spending reductions and tax increases.

"This proposal requires shared sacrifice -- and that starts with a commitment by state government to operate more efficiently and spend taxpayer dollars wisely, while maintaining key investments in health care, education and our economy," he said.

The tax hikes are focused on three areas: personal income tax, corporate franchise tax, and tobacco taxes.

Multiple changes to the personal income tax -- one of the state's leading sources of revenue -- are proposed. The Carney administration is calling for the elimination of itemized deductions and hiking the tax in each bracket by 0.2 to 0.4 percentage points, with top rate rising to 6.8 percent. The eligibility age for additional personal credits and retirement income exclusions would be raised gradually from age 60 to 65. The changes would be somewhat offset by increasing the standard deduction by more than 50 percent.

No information has been released thus far about how the amalgam of alterations would actually impact citizens in different tax brackets and circumstances. The state would realize an additional \$64.6 million in FY 2018 from the changes.

The corporate franchise tax structure would also be changed, with the largest companies being asked to pay more and filing fees being adjusted upward for inflation. Because of the size of the fees, and the huge number of businesses incorporated in Delaware, the proposals would net more than \$116 million in new revenue next year.

Lastly, Gov. Carney is asking the General Assembly to raise the per-pack tax on cigarettes by \$1 to \$2.60 a pack. Additionally, moist snuff and e-cigarettes would be categorized as "Other Tobacco Products" (OTP) and taxed at a new higher OTP rate of 30 percent of wholesale value. Combined, the proposals would yield another \$16 million in additional annual revenue.

Among the proposed cuts in the governor's plan are:

- Reduce total state agency discretionary funds by 4.5 percent
- Adjust cost share of employee health plans. \$6.5 million
- Eliminate 200 vacant positions. \$5.0 million
- Eliminate the double state share. \$3.5 million
- Cut or eliminate funding in FY 2018 for the Open Space, Farmland Preservation, and Energy Efficiency programs. \$25 million
- Reduce the Senior Property Tax Credit by \$100. \$5 million
- Reductions to higher education. \$3.3 million
- Reduce Medicaid dental reimbursements by 14 percent. \$2.6 million

Some aspects of the budget will grow. The governor's plan calls for spending an additional \$25.1 million for new teachers -- hiring that is largely mandated by state law regulating student-to-teacher ratios. An additional \$4.7 million will be spent on Early Childhood Education.

Delaware's beleaguered correctional officers received some attention in the proposals. Annual hazardous duty pay would be raised at a total cost of \$4.5 million. Another \$2.3 million in new spending would be earmarked to hire 75 new officers at the James T. Vaughn Correctional Center and the Baylor Women's Correctional Institution. C-Os would also receive new equipment and training costing \$1.3 million.

The proposals fall short of what union officials have called for to address chronic staff shortages and an exodus of prison staffers following the February 1st hostage incident at the James T. Vaughn facility that took the life of a veteran officer.

When compared to the current year, overall spending in Gov. Carney's proposed state operating budget would increase by a modest 0.29 percent.

To see a detailed press release from the governor's office on his budget proposal, [click here.](#)

To see video of Thursday's presentation, [click here.](#)