Delaware Budget Process

Robert L. Scoglietti
Office of Management and Budget
October 2, 2015
…or demystifying how $ are allocated in Dover

Agenda

- Budget Process
  - Revenue
  - Appropriations

- Other issues
Budget Process

Revenue
Delaware’s revenue mix is unique

- Relatively low property taxes
- No sales tax (no local share)
  - State level gross receipts tax
- Corporations’ legal home
  - Reliance on related taxes & fees
- Non-tax revenues -- lottery & abandoned property
Delaware Economic & Financial Advisory Council (DEFAC)

- Responsible for preparing & approving THE revenue & expenditure forecast.
- Members appointed by the Governor to serve at their pleasure.
- Membership of DEFAC broadly represents both the public and private sectors of the State’s economy.
- Two Subcommittees: Revenue and Expenditure
- Full Council meets 6x/year and ratifies estimates from subcommittees
Types of Funds

- General Funds
- Appropriated Special Funds
- Non-Appropriated Special Funds
Delaware Fiscal Year 2016 Revenue Forecast

- Personal Income Tax, 32.0¢
- Business Gross Receipts Taxes, 5.6¢
- Bank Franchise Taxes 2.2¢
- Abandoned Property, 13.6¢
- Corp. Income Tax, 3.6¢
- Public Utility, 1.3¢
- Realty Tax, 2.2¢
- Lottery, 5.0¢
- *Other Non-Tax, 4.7¢
- Other Tax Revenue 4.4¢
- **Incorporation Revenue, 25.4¢

*Includes Prior Year Unencumbered Cash Balance.

**Includes Corporate Franchise Taxes, Business Entity Fees, and Limited Partnerships & Limited Liability Corporations.
Changing Revenue Composition

*2000-2016 Franchise figures include LP/LLC collections.
DEFAC Revenues FY 2010 - 2018

FY 2010: $3,235
FY 2011: $3,531
FY 2012: $3,359
FY 2013: $3,730
FY 2014: $3,730
FY 2015: $3,955
FY 2016: $3,951
FY 2017: $3,947
FY 2018: $4,059
Budget Process

Appropriations
Delaware’s Services are Concentrated at State

- All Adult and Juvenile Social Services
  - Public Health, Health, Mental Health, Child Support, Aging Services, Medicaid, TANF, Family Services, Unemployment, Vocational Rehab

- All Prosecutorial, Public Defender, and the vast majority of Judicial services

- All Detention (Pre-Adjudication), all Jail (2 years or less) and all Prison facilities
Delaware’s Services are Concentrated at State

- Approximately 70% of Public Education funding (Operating and Capital)
- The majority of Transportation and Public Transit Services
- Largest Police Force in State
- 50% of Public Library Construction Funding
Legislation

- **Bill**
  - Amend Code
  - *Appropriate funds*
  - Amend local government charter
  - Direct someone to do something

- **Joint Resolution**
  - Direct someone to do something
  - Only in effect during the General Assembly

- **Resolution**
  - Ask someone to do something
  - Statement or declaration

- **Constitutional Amendment**
Appropriations Legislation

- Appropriations:
  - Operating Budget
  - Capital Budget (Bond Bill)
  - Grants – in – Aid

- Epilogue (!)
Delaware’s Appropriations Legislation

- Operating Budget
  - Contains operating funding and position strength authorization for agencies, legislature, judiciary, higher education, education.
  - Funds and positions are appropriated by line item (Personnel Costs, Travel, Contractual Svcs, Supplies and Materials, Energy, Capital Outlay, Debt Service) or Program (Medicaid, International Trade, Assisted Living)
  - Budget is authored by Joint Finance Committee, requires simple majority vote
Delaware’s Appropriations Legislation (cont’d)

- Capital Improvements Act (Bond Bill)
  - Appropriates funds for major/minor capital improvements for state agencies, public schools, Higher Ed institutions
  - Also appropriates funds for:
    - DelDOT (TTF Capital program)
    - Economic Development (Strat Fund, Port)
    - Infrastructure /Land Use (Open Space, Farmland, Water/Wastewater, Drainage)
    - Specific Funds to Locals
Delaware’s Appropriations Legislation (cont’d)

- Bond Bill (cont’d)
  - Authored by Joint Legislative Committee on Capital Improvements (Bond Bill committee), requires 3/4 approval of Legislature
FY 2016 Operating Budget

- Public Education, 33.4¢
- Higher Education, 5.9¢
- Services for Children, Youth and Their Families, 4.0¢
- Safety and Homeland Security, 3.3¢
- Correction, 7.3¢
- Judicial, 2.4¢
- Other Agencies, 15.1¢
- Health and Social Services, 28.6¢
Delaware’s Appropriations Legislation (cont’d)

- Grants - In - Aid Legislation
  - Appropriates operating funds to non-profit social service agencies and fire/ambulance companies who provide services for Delaware citizens
  - Includes the annual subsidy for the county paramedic programs
  - Authored by the Joint Finance Committee, requires 3/4 vote majority for approval.
  - May see amendments to operating budget in this bill
Constitutional and Statutory Spending Limitations

- **98% Appropriation Limit**
  - Cannot exceed an appropriation of 98% of estimated State General Fund revenue for each fiscal year

- **2% Set-Aside**
  - Can appropriate between 98%-100% in emergency situations

- **Rainy Day Fund**
  - Balance of 5% of Gross General Fund Revenue
  - Can only be appropriated by 3/5 vote
Constitutional and Statutory Spending Limitations

- **Debt Issuance**
  - Fiscal year general obligation debt issue may not exceed 5% of estimated net General Fund revenue for that fiscal year.
  - Total fiscal year debt service may not exceed 15% of estimated gross General Fund revenue plus Transportation Trust Fund.
  - No new debt obligation can be incurred if the maximum annual debt payments exceeds the state’s cumulative cash balances.
Governor’s Recommended Budget

- The Recommended Budget is the Governor’s “Turn at the Plate”
  - POLICY/POLITICS - Opportunity to Show How Resources Will Be Allocated to Implement the Vision Presented in the State of the State
  - FINANCIAL - Opportunity to Present Financial Plan
  - STATE OPERATIONS - Must Provide for General Operations of the State
Governor’s Budget Development – Early Fall

- Validate financial principles
- Review Revenues, Sept. DEFAC is key
- Identify “Door Openers”
- Review Tax policy
- Provide framework for policy development
Door Openers

- Debt Service
- Employment Costs – Salary, Pension, Health
- Medicaid
- School Unit Growth
- Funding Legislative Initiatives
- Federal Mandates
  - MMIS
  - Federal oversight (DPC, DOC)
Door Openers: Medicaid Eligibles

Medicaid Average Monthly Eligibles

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Eligibles</th>
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<tbody>
<tr>
<td>FY 10</td>
<td>173,771</td>
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<tr>
<td>FY 11</td>
<td>193,633</td>
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<tr>
<td>FY 12</td>
<td>207,067</td>
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<tr>
<td>FY 13</td>
<td>212,693</td>
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<tr>
<td>FY 14</td>
<td>217,658</td>
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<tr>
<td>FY 15</td>
<td>224,198</td>
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</table>

Average Monthly
Door Opener: Enrollment Growth: PK - 12th Grade

Excludes DAFB students

School Year

<table>
<thead>
<tr>
<th>Year</th>
<th>District</th>
<th>Charter</th>
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</thead>
<tbody>
<tr>
<td>05/06</td>
<td>113,924</td>
<td>6,567</td>
</tr>
<tr>
<td>06/07</td>
<td>114,276</td>
<td>7,580</td>
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<tr>
<td>07/08</td>
<td>115,103</td>
<td>8,512</td>
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<tr>
<td>08/09</td>
<td>116,277</td>
<td>8,626</td>
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<tr>
<td>09/10</td>
<td>117,098</td>
<td>9,173</td>
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<tr>
<td>10/11</td>
<td>118,419</td>
<td>9,525</td>
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<td>11/12</td>
<td>119,780</td>
<td>10,322</td>
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<td>12/13</td>
<td>120,591</td>
<td>10,438</td>
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<tr>
<td>13/14</td>
<td>121,763</td>
<td>11,078</td>
</tr>
<tr>
<td>14/15</td>
<td>121,921</td>
<td>12,521</td>
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</tbody>
</table>

24 Charter Schools

19 School Districts
Timetable – Governor’s Budget Development

- August-September (Budget Guidelines/Target)
- October (Budget Requests From Agencies)
- November (Budget Hearings)
- December (Meetings with Governor, DEFAC)
- Early January (Budget Director reviews budget with Cabinet Officials)
- Late January (Governor presents budget to Legislature)
Timetable – Legislative Budget Development

- February-March (Joint Finance Committee, Bond Bill Committee holds Public Hearings)
- April-May (Joint Finance Committee Mark-Up)
- June (JFC Mark Up continues, Bond Bill and Grant in Aid)
- June 30th (Budget, Bond and Grant-In-Aid Bill passes the Legislature and Governor signs)
Major Actors in the Budget Process

Legislative Branch

- **General Assembly**
  - Sets appropriations for state government

- **Joint Finance Committee (JFC)/Joint Bond Bill Committee**
  - Reviews & marks up Governor’s budget
  - Proposes budget for consideration by legislature

- **Office of the Controller General**
  - Counterpart to OMB
  - Staffs to JFC & Bond Bill Committee
Joint Appropriations Committees

- Structure
  - 2 committees – JFC, Bond
  - Chairs rotate
  - 6 House/6 Senate
  - By politics, 8 D, 4R
JFC Markup

- “Governor proposes and the Legislature disposes”
- Use Governor’s Recommended Budget as blueprint
- Use Governor’s Budget as starting point for motions
  - Very important to get Gov Budget voted in, takes 7 to vote it out
- Usually 10-15 major issues
  - Salary
  - Policy – enacted programs
  - Operating
  - Caucus members issues
**FY 2015 Recommended Financial Plan**

<table>
<thead>
<tr>
<th>Budget Title</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>General Fund Operating Budget</td>
<td>$3,908.4 million</td>
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<tr>
<td>Transportation Trust Fund Budget</td>
<td>$344.9 million</td>
</tr>
<tr>
<td>Grants-in-Aid</td>
<td>$43.0 million</td>
</tr>
<tr>
<td>Bond and Capital Improvements Act</td>
<td>$456.3 million</td>
</tr>
<tr>
<td>- State Capital Projects</td>
<td>$247.9 million</td>
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<tr>
<td>- Transportation Projects</td>
<td>$209.3 million</td>
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# Where do I find.....?

<table>
<thead>
<tr>
<th>Item</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Street Aid/Community Transportation Funds</td>
<td>Bond Bill, DelDOT</td>
</tr>
<tr>
<td>Drainage</td>
<td>Bond Bill, DNREC “Resource Conservation and Development”</td>
</tr>
<tr>
<td>Libraries</td>
<td>Operating and Bond bill, Dept of State</td>
</tr>
<tr>
<td>Volunteer Fire/Ambulance funding</td>
<td>Grant in Aid</td>
</tr>
<tr>
<td>Fund to Combat Violent Crime</td>
<td>Operating budget, DSHS</td>
</tr>
<tr>
<td>SALLE</td>
<td>Grant in Aid</td>
</tr>
<tr>
<td>LEPC</td>
<td>Operating budget, DSHS</td>
</tr>
<tr>
<td>Water/Wastewater</td>
<td>Bond bill, DNREC</td>
</tr>
<tr>
<td>Housing Development Fund</td>
<td>Operating budget, Bond bill, DSHA</td>
</tr>
<tr>
<td>Downtown Development Districts</td>
<td>Bond bill, DSHA “Urban Redevelopment”</td>
</tr>
<tr>
<td>Tourism</td>
<td>Operating Budget, DEDO (Executive)</td>
</tr>
</tbody>
</table>
Final Thoughts
Long Term Challenges

- Infrastructure
- Revenue
  - Abandoned Property
  - Lottery
- Aging population
- What level of services do taxpayers want and are willing to pay for?
Budget Development – Other Thoughts

- Budgeting is a process. Those who succeed are experts in not only the policy but the process.
- Numbers *always* have to be correct.
- Show enough detail to get policy makers to understand the issue but not too much to lose them.
- **KNOW** your issue but also know how it affects people.
- Compromise and negotiation lead to more constructive longer term relationships in Legislative Hall
Questions??