Analytics

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RE: A State budget deficit already?!

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The Delaware Economic and Financial Advisory Committee (DEFAC) met on September 19th and the news isn't encouraging.

Less than three months into the new fiscal year, the state is running an operating balance deficit of $355 million and an unencumbered cash balance of $32 million. In September of 2010 the state's operating balance was a $47 million surplus and the unencumbered cash balance was $107 million.

Expected revenues for this fiscal year (FY 12) have been reduced $234 million, a drop of 4% over the June, 2011 forecast. Meanwhile, as of September, projected FY 12 operating expenditures are running at a pace that exceeds the FY 11 expenditures by 14%.

The bottom line right now for FY 12 is projected expenditures of $3,734.8 and projected revenue of $3,379.5.

Slightly over 1% of the 4% drop off in revenue is due to a weaker than expected economy. The remainder is due to the state's politicians' decision to spend $191 million out of last fiscal year's cumulative cash balance on special projects, thus reducing the funds available for operations. This generous expenditure came after DEFAC's last meeting in June.

On the expenditure side many areas of spending are locked in for the fiscal year. Most of the increases are self-inflicted.

- **Projected state Medicaid spending has jumped $205 million (44%) over FY 11. This is due to the generous state Medicaid qualification rules put into place previously, to the termination of the Federal stimulus funds and to a carryover from the last fiscal year.**

- **Salaries are up $82 million…a 2% across the board six month pay raise that somehow has translated into a 7% jump in salary spending. Part of this is due to an extra pay period and to employee step increases. But at least $20 million appears to be net new hiring.**

- **Benefits and pension are up 8.3% as the state refuses to take the aggressive adjustments made by private companies to shift more responsibility to employees.**

- **Grants have risen 18%, spending on contractual services 17%, and outlays on supplies and materials a whopping 49%. So much for running state government like a business.**

The good news is that DEFAC and the Delaware Department of Finance are carefully tracking these numbers. And that the accuracy of the expenditure and revenue data improves as the fiscal year progresses.

The disappointing news is that state politicians seem to be unwilling or unable to stop spending. Delaware's economy will simply not revive with government as the only growth industry.

And throwing around grants to venture capital start-ups is far less important than keeping Delaware's state and local tax burdens competitive, not raising energy costs, and having public schools that work.

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