



Policy for Economic Growth

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RE: First steps in dealing with Delaware's budget deficit

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In just one month the spending limit has dropped \$443 million for the 2020 Fiscal Year state budget that begins on July 1, according to the Delaware Financial Advisory Council (DEFAC). The lockdown of the economy in response to the COVID-19 virus is hitting Delaware hard, and DEFAC is looking at nearly a billion dollars in lost state tax revenue between the 2019 to 2021 budget years. To make matters worse, there are so many uncertainties no forecast can be truly trusted at this point, and things could become worse.

So where do we start to fix an upcoming budget plan that looked to expand spending about 4-percent from the current year. Fortunately, the Governor's original planned budget increase was heavy on one-time spending priorities that can now simply be deferred to focus on retaining as much of the status quo as possible. Curtailing this \$426 million in new spending is not a comment on the value of those programs. We are in crisis that requires some drastic actions, and new spending initiatives simply need to wait;

- The proposed one time capital expenditures of \$233 million should all be deferred. That includes \$50 million for Wilmington schools, \$50 million for questionable clean water projects, and \$50 million for economic development (\$20 million to Strategic Fund, \$10 million to Graduation Lab, \$10 million to site readiness, and \$10 million to Transportation Infrastructure Fund)
- Cancel the plan to add \$161 million to the Reserve Fund
- Cancel 2 % pay increases for state employees and teachers (DEFAC shows \$1,585 million in salaries in 2020 FY so cutting the 2% increase would save about \$32 million. Step increases would still remain of about \$16 million)

More cuts will likely be needed. During the Great Recession most of the revenue shortfall came from tax increases. People and businesses are suffering enough already. Tax increases should be resisted.