



1st Session of the 149th General Legislative Report

FISCAL MANAGEMENT

SFY 2018 Operating Budget

June 30, 2017 came to a close without agreement on an operating budget. Governor Carney proposed in his budget reset to close the \$400 million projected deficit with \$200 million in spending cuts and \$200 million with enhanced revenues (taxes/fees). The Republican caucus held firm to their position of no increase in Personal Income Taxes (PIT) and prevailing wage reform while the Democratic caucus was unable to forge consensus to PIT but were united on sustaining prevailing wage. The PIT bill proved controversial on other fronts as well as it included elimination of the charitable contribution, mortgage interest and other federally allowable deductions on itemized returns.

The historic failure to pass a budget resulted in an extraordinary session on July 2 extending into July 3 when a budget compromise was reached with short-term solutions without addressing the inherent structural problem with the State financial woes. The revenue package included:

- **\$116 million:** Corporate franchise tax increases
- **\$11.6 million:** Raise taxes on cigarettes 50 cents per pack, and increase taxes on other tobacco products.
- **\$5.2 million:** Raise taxes on beer, wine and spirits, including by one penny per beer.
- **\$44.7 million:** 1% increase in the realty transfer tax raising the real estate transfer tax to 4%
- **\$4.5 million:** Across-the-board increases to the filing fees associated with Department of Insurance filings.

Spending cuts included:

- **11 million** reductions to the Educational Sustainment Fund.
- **\$5 million** savings by eliminating 200 vacant positions across state agencies.
- **\$2 million** target savings in employee health costs.
- **\$1.6 million** reduction by modifying double state share for employee health insurance rates
- **2.6 million** reductions in Medicaid for children's dental care
- **20% reduction** to the grant-in-aid allocation to non-profit agencies



SFY 2018 Capital Budget SB 125

Leadership by the Co-Chairs of the Bond Bill Committee, Senator Dave Sokola and Representative Quinn Johnson resulted in **\$590,017,598** allocated for SFY18 transportation and non-transportation projects.

Transportation state and federal funds totaled \$568,840,472. Projects are itemized as an addendum in the bill.

New Construction projects include:

Schools: Caesar Rodney, Cape, Appoq. and NCC Vo Tech Districts

Courts: Family Courts in Kent and Sussex and Kent County Court House

Epilogue includes language for up to 12 design build projects including 6 transportation projects and a pilot project noted below

Section 118. Construction Manager/General Contractor Pilot. The U.S. Department of Transportation is encouraging states to explore procurement alternatives for transportation project delivery, through its Every Day Counts Initiative, aimed at shortening the time frame required for project completion and reducing overall project costs, while still providing quality assurance for the results. Therefore, the Department is hereby authorized to utilize Construction Manager/General Contractor ("CM/GC") procurement mechanisms, for up to six transportation construction projects. "Construction Manager/General Contractor" is a project delivery method under which an owner selects a General Contractor to provide consultation during the design of the project. After the project design is completed, the General Contractor may submit a bid to perform the construction work

Bills and Resolutions

SB 20 Transportation Trust Fund: This act amends the Delaware constitution to limit the ability of the State to appropriate Transportation Trust Fund moneys to a purpose other than (1) capital expenditures on the public transportation system, including the road system, grants and allocations for investments in transportation, the transit system, and the support systems for public transportation; (2) payment of the interest and principal on all bonds issued before or after the effective date of this Act and secured by moneys in the Transportation Trust Fund; and (3) other transportation-related purposes, including operating expenses funding the Delaware Department of Transportation, to which moneys in the Transportation Trust Fund are authorized. This Act essentially creates a lock box on the Transportation Trust Fund that can only be opened by the agreement of three-fourths of all the members of each House through a



bill separate from an annual budget act, bond and capital improvement act, or grants-in-aid act. The bill passed without Governor Carney's signature to become law.

HJR 8 The Republican budget proposal creates a task force to look at ways to implement a budget smoothing accounting process; establishment of metrics to evaluate spending; and expenditure reform. The resolution is consistent with recommendations from DEFAC to explore ways in which to diversify the state's revenue portfolio.

SJR 2 Artificial Island Senate Joint Resolution 2 [urges](#) the Federal Energy Regulatory Commission (FERC) to accept either of PJM's alternative cost allocation methodologies for funding the Artificial Island transmission line project. As currently funded, Delmarva Peninsula ratepayers would fund more than 90 percent of the cost of the project through higher electric bills, while receiving few direct benefits. Under PJM's alternative methods for cost allocation, Delmarva ratepayers would fund approximately 7-10 percent of the project costs.

ECONOMIC INCENTIVES

HB 190 Modernizing the Coastal Zone Act:

House Bill 190 allows the responsible redevelopment of 14 legacy industrial sites along the Delaware coastline, bolstering Delaware's economy while paving the way for additional environmental clean-up of those sites. The 14 grandfathered industrial sites allow new heavy industrial or bulk product transfer activities previously forbidden by the Coastal Zone Act. The final Senate vote was 18 yes; 2 nays and 1 not voting. Senator Stephanie Hansen (a former DNREC staffer, former New Castle County Council President, and current environmental attorney with Young Conaway) chaired the committee hearing on the bill with professionalism. She extolled the virtues of the Coastal Zone Act, while arguing that limited changes were necessary to both protect the environment and create new employment opportunities. The House vote was 34 yes and 7 no with Representative Val Longhurst, Baumbach, Bennett, Kowolko, Lynn, Matthews and Mitchell voting against the bill).

[HB 226](#) Delaware Economic Development Office will no longer operate as a State agency but will be reconfigured as a public-private partnership (P3) to implement Delaware's economic development strategies. Emanating from recommendations of the Delaware Business Roundtable's "Delaware Growth Agenda" and from Governor Carney's Executive Order No. 1 that established a working group to recommend a model for the public-private partnership. Some functions of DEDO will move to the Department of State and others to the newly established partnership. Epilogue language in the Bond Bill further clarifies the new structure.

House Bill 226 restructures the way Delaware attracts good-paying jobs to Delaware and keeps them here, with a focus on entrepreneurship, innovation and small business development. [HB 226](#) creates a public-private partnership (P3) to replace DEDO in planning and implementing



Delaware's economic development strategies. The bill passed both chambers with wide margins of support. The private sector agreed to contribute \$1 Million annually toward the operational expenses of the corporation.

HB 189 Advanced Wireless Infrastructure Investment Act Delaware will be a leader in mobile broadband and 5G readiness as the result of HB 189. The bill enables wireless providers to install 'small cell' equipment in the DelDOT right-of-way, incentivizing and accelerating investment in next generation of small cell wireless technology. Small cell technology permits data transmission capacity and speed up to 20 times faster than 4G (LTE) technology. This greater coverage will particularly benefit Sussex County which suffers from a lack of broadband service. This act enables Delaware to position itself in the new innovation driven economy.

UPCOMING

DNREC, DHSS to host July 14 public workshop on **Clean Water and Drinking Water State Revolving Loan Fund**. The Office of Drinking Water, will host a public workshop from 10 a.m. to noon, Friday, July 14, at the Kent County Administrative Complex, 555 South Bay Road, Dover, DE 19901, in preparation for the development of FY 2017 project priority lists for the Clean Water and Drinking Water State Revolving Loan Funds.

Unfinished Work for SFY 19

A total of 290 House Bills and 137 Senate Bills were filed. Many bills were left in Committee and remain to be worked in the second year of the Legislative session. Of note are:

[SB 50](#), the Community College Infrastructure Fund Act, would create a strictly limited property tax revenue stream for DelTech, similar to that available to the Vo-tech school districts. The funding would be restricted to making much needed capital improvements and equipment purchases. DelTech is the keystone of Delaware's workforce development structure. Citing a \$100 million maintenance backlog, DelTech has worked to create a mechanism to address their capital funding needs.

HB 244 Prevailing Wage: This bill creates a 3-year exemption for DelDOT road construction from prevailing wage requirements. Also DelDOT will prepare cost study comparison reports for the Controller General's Office to compile and report to the General Assembly.

HB 221 Prevailing Wage: This bill creates a 3-year exemption for county and municipal government contracts from prevailing wage requirements. Also the local governments will prepare cost study comparison reports for the Controller General's Office to compile and report to the General Assembly.



SB 116 Prevailing Wage: This bill creates a 3-year exemption for public school construction from prevailing wage requirements. Also the public school will prepare cost study comparison reports for the Controller General's Office to compile and report to the General Assembly.

HB 144 Right of Way: This bill serves to better define and limit what real property rights the Department of Transportation may acquire. It also corrects a technical error that if left unchanged, will jeopardize the use of federal funds on transportation projects due to non-conformance with the National Environmental Policy Act and federal highway regulations.

The House unanimously passed Rep. Ramone's [Angel Investor Job Creation and Innovation Act for Small Technology Companies](#), but the Senate did not take up the bill. This legislation creates a tax credit for investors in Delaware technology start-ups.