THE COMMITTEE OF 100

FYI

July 5, 2017

Dover Wrap-Up 2017

In a historic failure, the General Assembly missed its June 30 deadline to adopt the FY2018 budget. They returned for an extraordinary session on Sunday, July 2 and finally managed to get the job done in the wee hours of the morning of July 3. They held to the Governor's recommendation to close the $400 million budget gap half with spending cuts and half with tax increases.

There had been hope on both sides of the aisle that structural changes could be enacted that would fix the state's fiscal situation for the longer term, but deadlock between the parties on a Personal Income Tax increase vs prevailing wage reform meant that they would have to muddle through again with short term fixes. The final spending cuts were indiscriminate and the revenue increases failed to broaden the tax base and make it more responsive to the economy. Instead they raised the state's already high real estate transfer tax rate to a total of 4%, hurting first-time homebuyers, as well as raising alcohol and tobacco taxes and corporate franchise fees. The result managed to leave everyone dissatisfied, knowing that they really didn't fix the problem and will be facing another budget shortfall next year.

But importantly, some wheels may have been set in motion that could result in the structural fiscal changes Delaware needs. The Republican budget proposal had called for the creation of a budget smoothing account and the establishment of metrics for assessing the value of spending programs. Democrats agreed to support HJR 8, which creates a task force to flesh out ideas that actually can a) bend the state spending curve downward and b) give legislators real measures for evaluating the effectiveness of programs supported by tax dollars, rather than making across the board cuts. The Committee of 100 has supported the Republican recommendations for expenditure reform and supports implementation of the 2015 DEFAC revenue advisory committee recommendations for structural changes in the state's revenue portfolio, which included some of the Democrats' proposals for broadening the personal income tax base.

Task Forces were also established to study school district consolidation and to establish a benchmark for healthcare that could help control Medicaid costs over time - one of the major causes of the state's fiscal problem. Our hope is that work will start right away on making these long-term changes. Just studying the problem is not good enough and the job can't wait until next June.

Despite the fact that the budget shortfall loomed over the entire 1st Session of the 149th General Assembly, some very positive economic legislation was nevertheless enacted.

Coastal Zone

At the top of the list, HB 190, the Coastal Zone Conversion Permit Act, which was over 2 years in the making, passed on June 29. The bill enables 14 grandfathered industrial sites in the Coastal Zone to initiate new heavy industrial or bulk product transfer activities previously forbidden by the Coastal Zone Act. In its letter to the General Assembly, The Committee of 100 noted that allowing the sites to return to their highest and best use would increase the chances that they will be cleaned up and become productive once again. In the end, the final vote was anti-climactic with 18 yes votes and only 2 nays. 1 not voting. It was widely agreed that new 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 and then delivered a compelling speech on the Senate floor explaining her vote in favor of the bill. 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. It was a bravura performance by the freshman Senator.

New Economic Development Paradigm

Another long-term initiative which bore fruit this Session with the passage of HB 226 was the creation of a public-private partnership (P3) to replace DEDO in planning and implementing Delaware's economic development strategies. The bill ended up passing both chambers with wide margins of support. The seeds for this initiative were planted over 2 years ago when the Delaware Business Roundtable issued its Delaware Growth Agenda that included a call to explore the idea of setting up an economic development P3. The Committee of 100 was among those advocating for the change during the consultant interviews for that document. The idea caught the attention of gubernatorial candidate John Carney, who followed through upon assuming office by issuing his Executive Order No. 1 establishing a working group to recommend whether to set up a public-private partnership and to suggest what a successful model might look like. The working group recommended bifurcating DEDO's functions, some moving to a new division within the Department of State and the bulk of activities being contracted to a new 501(c)3 corporation to be established with a public-private board of directors. The private sector agreed to contribute $1 Million annually toward the operational expenses of the corporation. The Committee of 100 has urged its members to support the new entity and members of the Board of Directors pledged their own companies' funds to make an annual $10,000+ contribution in the name of The Committee of 100.

NextGen Wireless Coming Soon

Delaware took a major step toward becoming a leader in mobile broadband and 5G readiness by passing HB 189, the Advanced Wireless Infrastructure Investment Act. Supported by The Committee of 100, the bill sets ground rules for wireless providers to install 'small cell' equipment in the DelDOT right-of-way, incentivizing and accelerating investment in next generation wireless. Small cells greatly increase the system's data transmission capacity and will enable speeds 20 times faster than 4G (LTE) technology. This greater coverage will particularly benefit Sussex County which suffers from a lack of broadband service. 5G will make possible broadcast quality wireless streaming, self-driving cars, and the Internet of Things, among other advancements. As Delaware works to build a technology and innovation driven economy, having cutting edge wireless infrastructure in place will be a huge competitive advantage.

Trust Fund Protected

The Transportation Trust Fund (TTF) will not be burdened with new operational expenses in the future thanks to a Constitutional Amendment sponsored by Senator Greg Lavelle. SB 20, which represented the second leg of the process which requires a constitutional amendment to pass in two successive General Assemblies. The first leg, SB 166, was passed in 2015. The amendment creates a 'lockbox' by prohibiting new operating expenses from being shifted from the General Fund to the TTF. Originally, the Trust Fund was to be for capital projects only. But over the years, the General Assembly assigned it more and more operating expenses until today they total about $275 Million. The Committee of 100 has advocated for 50% of those operating expenses to be gradually returned to the General Fund.

Unfinished Work for next year

There were several other bills important to Delaware's economic well-being that weren't acted upon, but which stay alive for consideration next year. 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. Allowing a $100 million maintenance backlog to accumulate for lack of funding is unconscionable and short-sighted.

On the last day of the Session, 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. The legislation would create a tax credit for investors in Delaware technology start-ups. It would help fill a significant gap in our capital formation infrastructure and would fit well with the mission of the new Delaware Prosperity Partnership P3 to make our economy more entrepreneurial and innovation driven. We expect the bill to be considered by the Senate next year.

Cordially,

Paul H. Morrill, Jr.
Executive Director