

MAJOR INITIATIVES

Fiscal Responsibility - AAA Bond Rating

Delaware's long tradition of handling taxpayers' dollars wisely and efficiently, which continued in fiscal 2000, has been recognized by a AAA bond rating. Four principles form the core of this approach: 1) controlling base budget growth; 2) developing sound and responsible tax policy; 3) encouraging debt reduction and utilizing excess one-time cash for capital projects; and 4) maintaining sizable cash balances in reserve. Delaware's sound fiscal management continues to be recognized by national entities. Beginning in Fiscal Year 2000, three rating agencies, Moody's Investors Service; Fitch IBCA, Duff & Phelps; and Standard &

Poor's rate Delaware's General Obligation bonds Aaa, AAA, and AAA, respectively. They cite such factors as sound financial management and operations, manageable debt burden and above-average wealth and income levels as reasons for awarding Delaware with upgrades to their highest possible ratings.

It is important to recognize that government services in Delaware are highly centralized, with most programs funded at the state level. These programs include public and higher education, the judicial system, the correctional system, social services, and the majority of all infrastructure, including roads and buildings. The centralized nature of Delaware's system ensures fiscal control and encourages economies of scale.

The fiscal 2000 operating budget totaled \$2,044.0 million, an increase of 8.0% over the fiscal 1999 operating budget. Grants-in-aid appropriations of \$33.0 million, the budgetary General Fund contribution of \$279.0 million for capital projects through the State's capital budget, and \$40.7 million for debt deauthorization, brought total fiscal 2000 appropriations to \$2,356.0 million, an increase of 6.0% over total fiscal year 1999 appropriations. The appropriation package conformed to Delaware's constitutionally prescribed limit of 98% of estimated revenues and fully funded Delaware's Budget Reserve ("Rainy Day Fund") at \$126.2 million.

Strong revenue growth in fiscal 2000 also afforded an opportunity to continue reducing personal income taxes across the board, including a reduction in the top rate from 6.4% to 5.95% effective January 1, 2000 (the 12th lowest top rate in the nation). In addition, the standard deduction for married tax filers was increased as were the pension income exclusion and the personal credit. Effective January 1, 2000, manufacturers saw a 25% reduction in their gross receipts tax rate. Delaware's inheritance tax was eliminated after December 31, 1998.

Quality of Life Investments

Delaware has also established a notable tradition of using "one-time cash" to fund a variety of capital projects and initiatives. In fiscal 2000, \$57.0 million was earmarked for the fourth year of funding for Twenty-First Century Fund ("Fund") projects. The Fund is an aggressive long-term capital investment plan that was established in 1994 to receive a settlement of more than \$220 million resulting from the U.S. Supreme Court decision in Delaware v. New York, and other funds as appropriated. That decision entitles Delaware to receive abandoned property held by Delaware-incorporated property holders in cases where the owner is unidentified or cannot be located. The fiscal 2000 appropriation will enhance the State's investments in its parks, open space, farmland, community redevelopment, education technology, advanced technology centers, and natural resource, conservation and development programs.

In fiscal 1999, the State also created an Infrastructure Investment Plan with \$116.0 million of budgetary General Funds. The investments are designed to

continue certain growth management initiatives begun through the Twenty-First Century Fund, such as open space and agricultural land preservation efforts, water/wastewater infrastructure, and neighborhood revitalization, and to fund education technology investments, and capital projects at the Port of Wilmington and on the City of Wilmington's Riverfront. These funds were authorized to be spent over the ensuing three years.

Education

Delaware is continuing its commitment to improving the tough problems facing public schools. With the support of the business community, parents and educators, the State is pursuing a long-term effort to achieve the goals necessary for producing high achieving students through several substantial initiatives:

- **Implementing Tough Standards in Core Academic Areas** — Delaware put in place a rigorous set of standards in English language arts, math, science, and social studies in 1995. The Delaware Student Testing Program (DSTP) was designed and implemented in 1998 to assess individual student progress toward meeting the content standards. Students in grades 3, 5, 8 and 10 are assessed annually in the content areas of reading, writing and math - spring 2001 will be the fourth administration. Students in grades 4,6,8, and 11 are also assessed annually in the content areas of science and social studies - the 2001 administration will be the second year. Target performance levels in science and social studies will be determined by Delaware educators after the second administration. Individual Improvement Plans are now required for students who are not meeting the standards in grades 3, 5, and 8 in reading and grade 8 in math. Beginning in 2002, students who are well below the standard in grades 3, 5, and 8 in reading and grade 8 in math will attend mandatory summer school and re-take the DSTP. Promotion decisions will be based on the summer DSTP score. Students in grade 10 will have multiple opportunities to take the DSTP and their scores will be used to determine eligibility for one of three Delaware diplomas. The State has increased the requirements for graduation, adding credits in math, science and technology.
- **Implementing Greater Accountability in Schools** -- School and district accountability as described in the Educational Accountability Act of 1998 will begin in the fall of 2001. Accreditation status will be determined for each school based on the performance of students in reading, writing, and math on the DSTP and published in the School Profile. Improvement plans will be necessary for school on "accreditation watch" while superior accredited schools may be eligible for monetary awards.
- **Implementing Accountability for our Educators** -- The Professional Accountability Act of 2000 established a Professional Standards Board, including teachers who have demonstrated excellence, as well as school

administrators, local board members, higher education representatives and parents, to develop changes in educators' certification and licensure, educator evaluation, professional development and compensation. The highest quality teaching force is essential if we expect our students to meet high standards. Beginning in 2000, starting salaries for teachers have been increased and salary scales have been restructured in an effort to attract and keep the best and brightest teachers to our state system.

- Reducing Class Size — In order to give Delaware's children the best chance for academic success, State law caps class size at 22 for grades K through 3.
- Helping Families Save for Higher Education — To capitalize on new federal tax benefits, the State offers a state tuition savings plan. Savings are tax-deferred until the money is withdrawn and is then taxed at the beneficiary's (i.e., the student's) rate.

In addition, the State provided \$91.2 million for public school construction and \$30.0 million for a public School Construction Reserve; \$24.0 million for higher education construction; and provided \$10.4 million for extra instructional time to help academically at-risk children.

For the Future

The fiscal 2001 operating budget totaled \$2,183.1 million, an increase of 6.8% over the fiscal 2000 budget. A total of \$157.4 million in one-time cash was appropriated for capital projects and \$40.1 million in one-time cash was appropriated for Twenty-first Century Fund projects through the Bond and Capital Improvements Act, supplementing \$117.2 million in available General Obligation bonding authority to finance certain long-term projects. The appropriation package conformed to Delaware's constitutionally prescribed limit of 98% of estimated revenues and fully funded Delaware's Budget Reserve ("Rainy Day Fund").

Economic forecasts suggest that Delaware's economy and revenue growth will continue to outpace those of other states, even during an economic slowdown or recession. While projections show State revenues growing more slowly than the past several years, the State is projected to end fiscal 2001 with a substantial cash balance, estimated at \$379.2 million. The Governor and the General Assembly remain committed to capping operating budget growth.