

LEGISLATIVE PRIORITY: FINANCIAL STABILITY

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State Chamber Position

Over the past few months, the business community has become keenly aware of the financial challenges Delaware may face in the second half of this decade. The rising cost of energy, along with the increased cost of workers compensation, health care and borrowing money, are on the minds of every business owner.

In addition, the state is facing a fiscal challenge on the transportation and gambling fronts. According to DelDOT and the State Budget Office, there is a \$2.7 billion budget gap between approved road and infrastructure projects and the funds to pay for them. Furthermore, it appears that slots parlors could open in the Philadelphia region as early as 2006.

At least one-third of Delaware's revenue comes from out-of-state pockets such as holding companies, charters and incorporation. Legislators must react quickly as competing states and countries change their laws to capture the money that would have come to Delaware.

Delaware's constitution mandates a balanced budget. Yet, within those parameters, there is room for choice and prioritizing. As revenue streams shrink and expenses increase, projects and services are affected. We must be cautious about our spending and proactive about developing creative solutions to bolster Delaware's fiscal stability. The Financial Center Development Act rescued Delaware's economy from the stagnant '70s. What will be the 21st Century version?

Recent History

Over the last two years, Delaware's business community, residents and government have seen double-digit cost increases for energy, workers compensation insurance and health care. The inflation created by these climbing costs has driven up interest rates, thereby making it more expensive to borrow money. Moreover, this year the state government must meet an accounting mandate that requires it to set aside millions of dollars to cover the future costs of providing retired state employees with health insurance. When combined, these factors make budgets tighter and revenues less dependable.

Adapt to Changes

Over the past 25 years, Delaware's leaders have been especially adept at addressing potential threats to the state's financial stability. The Financial Center Development Act (FCDA) of 1981 was an economic development initiative designed to attract out-of-state credit card operations to

Delaware. This very successful legislation accomplished its primary goals by creating over 30,000 jobs and bringing multi-millions of dollars in revenue to the state through fees and taxes.

There was cooperation across the board from the Governor's office, the General Assembly and the business community. This nimble response to the stagnant state economy of the 1970s and its ensuing fiscal difficulties became the hallmark of the "Delaware Way." We may very well be approaching one of those periods in the state's history when this type of creative thinking and cooperative effort is essential.

In order to protect the state's financial stability, we must:

- Keep a close watch on state spending and prioritize spending needs. It is irresponsible to continue annual budget increases of five percent or more.

- Implement a definitive plan for addressing the shortfall in the Transportation Trust Fund before the end of the 2006 legislative session.

- Carefully scrutinize the state's revenue sources. Any potential challenges that could negatively affect the income stream must be addressed in a proactive manner.
- Find innovative means of addressing changes that have a potential or actual negative affect on state revenue.



Legislative Goals

The General Assembly has a number of issues to address during the upcoming Legislative Session. Among them: the establishment of a less-costly workers compensation system, a plan for protecting gambling revenues, eliminating or streamlining outmoded or ineffective permitting regulations, and expanding the state's economic development initiatives as a means of attracting and keeping businesses.

The ability to maintain economic and financial stability has earned our state the reputation as a good place to live and do business. It is proudly called the "Delaware Way," and it appears that the time has come once again to apply this distinctive way of solving the approaching fiscal dilemma.

It is now apparent that Delaware's financial future is murkier than it has been in a decade. The proper response is one of cautious spending combined with an innovative and energetic economic development policy. This will take the cooperative efforts of a business and government partnership that has served Delaware well in the past. ■