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GOVERNOR PIERRE S. DU PONT  
STATE OF THE STATE ADDRESS BUDGET MESSAGE

Mr. Speaker, Lt. Governor Castle, Mr. President Pro Tempore, members of the 131st General Assembly, Members of the Judiciary, honored guests, and ladies and gentlemen.

This afternoon, for the fifth consecutive year I have the distinct pleasure and privilege of reporting to you on the state of our State, and presenting to you my recommendations for the State Budget for the coming fiscal year. This unique annual message is important, for it is an opportunity to reflect for a moment on where we are, and to suggest where we should be going in the next year and into the next decade.

The progress we have achieved in the past several years has been on many fronts -- from restoring our financial equilibrium to improving the availability of housing for our state's older citizens; from improving our correction and criminal justice system to modernizing our transportation network; and from expanding our economic base to providing educational and job opportunities for our young people. The progress we have made has not come easily. It took personal discipline from each of us and political discipline from all of us. It meant forsaking short-term gain for long-term stability. The result has been a better managed Delaware government, one that is affordable, yet responsive to the human needs of our people. This progress is a tribute not only to the members of this Administration, but to each of you -- legislators, judges, government workers and taxpayers. I thank you for your patience and your support.

But there is still much unfinished business before us. In the past four years, the legislature has come close, but has not yet enacted financial disclosure and ethics legislation for themselves and state officials. I think that time is now. There has been consideration of making Dr. Martin Luther King's birthday a holiday. It is way past time to enact such legislation. Similarly, now is the time to rededicate ourselves towards improving confidence in our public school system, much as we have done with our state finances.

There are many other challenges, as well, challenges, as I said in my Inaugural Address last week, that are more complex than in the past. Challenges which will require greater thought, more tolerance, and statesmanship from each of us. And challenges which will require cooperation among all of us.

Now is the time to accept the challenge of resolving problems that have needed attention for many years, problems we have avoided because of the high cost of solving them. Now is the time to use the goodwill, the cooperation, the confidence, and the sense of integrity we have created in the past to tackle the difficult problems facing us in the future. We have a unique opportunity, one that is built upon a firm foundation and one that we must seize to develop new partnerships, and blaze new paths to progress.

Today I want to explore the new partnerships we need to form and the new paths to progress we need to discover in two principal contexts: first, in the way our government works; and second, in what our government does.

#### Progress in the Way Delaware Government Works

The sum total of all our efforts to significantly improve the way Delaware government works should and must be to see that there is greater reliance on, greater recognition of, and greater reward for excellence and quality.

If our paths to progress in making government work better were limited to just one, we would surely follow the path toward meaningful reform of our merit system for personnel. What once was rightfully conceived as a necessary bulwark against arbitrary action in a politically volatile environment, has long ago become, a disincentive for individual initiative, and a cumbersome roadblock to the efficient conduct of necessary and legitimate personnel actions. In fifteen years, times have changed; concerns about political dismissals of public employees belong to an earlier generation. Indeed, practically all public employees now enjoy constitutional protection against such dismissal. Frankly, Delaware is lucky to have attracted and held the number of quality people it has, considering the cumbersome merit system with which we are saddled.

Based upon the experience of the past four years, I have no illusions about the difficulty of bringing basic reform to a system that is short on merit and long on system. Indeed, the past four years have been marked by difficulty in restoring

integrity and reason to the Personnel Commission, and in the opening of the merit system to qualified candidates from outside government. We have instituted an Affirmative Action program to correct past inequities in the hiring, training and promotion of employees -- and even this has not been a simple step in a cumbersome system.

It is time to rethink, and to re-examine our personnel system; to begin to restore incentive, flexibility, and prompt response to the needs of our Departments. I will designate a task force that will include Administration and legislative representatives to develop specific recommendations for fundamental changes in our merit system, and to insure protection for the basic rights of state employees, to be submitted before the conclusion of this session of the General Assembly, for action in the next.

In addition, I am recommending that we begin an incentive pay system to compensate the exceptional employee for quality work. This incentive pay increase would be in addition to the basic increase most employees received based on length of service; it would reward outstanding employees for meritorious work. It is time to adopt the teaching of the private sector that an employee should in some measure be compensated in proportion to the quality of his or her work.

A similar challenge confronts us in the sensitive, but vitally important area of adequate compensation for the officers of our government. Judges, cabinet secretaries, legislators, and statewide elected officials have been denied an adequate compensation program to the point that newly qualified individuals are driven from, or refuse enter public service. It is difficult to persuade judicial and Cabinet nominees of exceptional quality to enter public service under current circumstances.

Indexing salaries to the cost of living is not an appropriate answer to this difficult problem, (although I have recommended that judicial officers receive the same annual salary increment as other State employees) nor is leaving the determination of salary levels to a highly charged political debate between the three branches of government. Instead, I am recommending a permanent salary commission be established to recommend every two years appropriate increases in salaries to be paid to judges, cabinet officials, legislators and state wide elected officials. I shall designate seven individuals from the private sector, men and women of high

calibre and reputation, to review salary levels and to make recommendations. I would hope this Salary Commission can make recommendations by April 1, to be included in the new budget, and that it will be permanently established by a statute requiring that the Administration include its recommendations in its proposed budget. As always, for elected officials, the increases would not take effect until after the next election for their respective offices.

Another path to progress leads from the success we have enjoyed in contracting out such functions as janitorial services and prison health care to the private sector. We have learned that in many cases the private sector can provide better service at less cost than the public sector. I believe that there are a variety of other services, ranging from fleet automobile rental and maintenance to food service that might more effectively and less expensively be provided by contracting with private vendors. I have therefore directed each cabinet secretary to review the programs and services within their Departments and recommend to me within sixty days those additional services which Delaware government can better provide through contract with the private sector.

There is one such service already known to us: the banking service necessary to handle state funds. As I have said many times, it is time for Delaware to get out of the banking business; we must sell Farmers Bank so we can free the tens of millions of dollars in state deposits for profitable investment at market rates. I believe the agreement of sale that is pending before the General Assembly for consideration by March 31 is a fair one. Delaware receives a return of its capital, and the taxpayers will be relieved of the \$1 million-a-month cost of owning the Bank.

As we consider involving private enterprise in providing public services, we must also consider ways to control the often arbitrary distribution of public funds to private entities through the Grants-in-Aid program. In the past five years we have placed limits on the growth of our capital budget, our operating budget, and our taxes. During the time we were focusing our attention on these areas, Grants-in-Aid expenditures have nearly doubled, from \$4.6 million in FY 1977, to \$8.0 million in FY 1981, and the authorization, auditing, and use of these funds is almost without control. I would recommend to the General Assembly four basic reforms in the Grants-in-Aid program: first, that the total size of the Grants-in-Aid

spending be capped at 1% of appropriations or \$8.5 million, whichever is greater, and paid quarterly to the grantee; second, that the Joint Finance Committee undertake to review Grants-in-Aid expenditures as it does other expenditures; third, that all grantees be required to submit an annual audit in a form acceptable to the State Auditor and a waiver permitting the Auditor to examine the operations of the grantee if he chooses to do so.

Finally, the grant bill should be split in two -- the traditional grant to fire companies and veterans organizations being passed separately this year with a 25% or \$250,000 increase in Grants-in-Aid for fire companies - the first such increase in many years.

Anticipating that the General Assembly as well as other local governments will be inundated this year with additional Grants-in-Aid requests from cultural and arts organizations, I propose that we move promptly to reform this process, too. I am proposing that, in return for additional governmental dollars being funneled into arts and cultural programs, State government join with the county and municipal governments, with the private sector, and with arts organizations, under the leadership of the Delaware State Arts Council, in a unified process for allocating matching funds to the numerous organizations requesting assistance.

The last of the major new paths to progress we must follow in the way government works is that leading to the reorganization of the Department of Community Affairs and Economic Development. I have spoken often of the need for a strengthened economic development effort, and for an equally responsive community affairs department. Yesterday, Acting-Secretary Hayward put forward a sound and comprehensive program. It is being introduced today so that you may have ample time to examine the recommendations, schedule hearings, and plan for its consideration upon the reconvening of the General Assembly in March.

### Progress In What Government Does

Not only must we reexamine the way government operates, but also seek progress in what government does. The largest single expenditure of the State goes to public education. And while we have made substantial progress in public education -- in such areas as basics education, graduation and promotion standards and handicapped programs among others -- we must resolve the lack of confidence parents now feel towards public education, especially in New Castle County. As

with the other challenges, it will not be easy. Yet, we have begun to take the first tentative steps towards restoring that confidence. In two days time, elections will be held to elect members to the four new school boards that will soon start governing the education system in our largest county. I believe, as I have said many times, that this will return local control of the schools to the parents and taxpayers of New Castle County, where it rightfully belongs.

We must redouble our efforts to make certain that basic skills are taught to every student, and that no students graduate to adulthood without having demonstrated minimum educational competency. No less important is the task of seeing that those who are intent upon moving directly into the job market from high school, are targeted, counseled, trained and assisted in their efforts to become immediate and productive wage earners. Funds to continue these efforts are included in the budget as are increases in Division III and gifted and talented program funding. I believe, if we want measurable progress throughout the State in educating our children and in developing community confidence in our school system, two additional steps are critical:

First, we must insist that our teachers, no less than the students they teach, demonstrate that level of competence necessary to assure learning. I have assigned the Department of Public Instruction the task of recommending a sound teacher competence testing program for Delaware; so that parents, administrators, and students can be confident that teaching is being conducted by qualified and competent teachers.

Second, we must establish and adequately fund through the unit formula alternative schools which guarantee that unruly, disruptive students will not destroy the learning atmosphere for those people who want an education. These schools will provide for disruptive students, for some indefinite period, a highly disciplined learning environment outside of the regular classroom so that sincere and motivated students may obtain a sound education within the classroom. Funding for this program should receive top priority as revenue projections increase later in the year, as I will discuss further in a moment.

The task of transforming our most valuable resource -- our children -- into productive adults is only partially the responsibility of the public schools.

Elsewhere lie the responsibilities for helping us to develop the potential of all children - providing for foster care, assisting the handicapped child, the emotionally disturbed child, and the disruptive and anti-social child. For the more than \$15 million we spend each year on child services; from school to clinic to prison, I believe we can do better. I have asked Secretary Schramm, as Chairman, and Commissioner Sullivan, Superintendent Keene and Secretary Whittington to join with major providers of child care services to consider how we might better serve the young people of Delaware across the full range of youth services. Once I have received the recommendations of this group, I will be prepared to recommend to the General Assembly appropriate legislation to improve the delivery of child care services.

While Delaware's most precious human resource is its children, its most precious natural resource is water. We are consuming our water supplies at record rates; the water table is not replenishing to meet increased demands; and as a result the four states of the Delaware River Basin Compact declared a drought emergency earlier this month. Tomorrow, the first steps of establishing a conservation plan will be taken when representatives of all levels of government and the private sector meet to discuss possible reductions in water usage. Water conservation may well become the major resource challenge confronting us in the years ahead.

Finally, our odyssey should take us this next year down new paths toward progress in the administration of justice. Two alternative paths lie before us regarding the way we sentence offenders to prison; we must as a community consider them, decide whether we can accept or afford to take either, or perhaps select a compromise between the two.

In the last four years, I have asked the General Assembly for close to \$30 million in order to construct two new prisons, and the corrections budget has grown from \$13.8 million to \$29.2 million, a 212% increase. The reason for this massive investment in corrections programs has been the ever-escalating population of inmates in our corrections facilities. Although our rate of incarceration continues to slowly increase, this rate is not really the culprit. Rather, the principal culprit is the pattern of mandatory and consecutive sentencing which has governed our sentencing process for most of the past decade. As a result of these laws, fewer people are coming out of our prisons than are entering. By way of example, 134

adults were sentenced to terms of ten years or more between 1974 and 1978, when both mandatory and consecutive sentencing were in full force, while only 23 adults serving sentences of 10 years or more were released. This means that our corrections system, in less than 2 years, effectively lost 111 beds for the foreseeable future. The end result is an inevitable spiral of overcrowding followed by massive expenditures for new prison beds.

A new prison bed in a secure facility in all likelihood costs more to build than your house did. And the cost of maintaining an inmate for a year now exceeds the annual cost for tuition, room, and board at Harvard. It is clearly time to reconsider the very expensive prison construction program that has been the basis of our corrections program for the past four years.

I challenge our criminal justice system to develop a comprehensive alternative to current sentencing policies which will let us progress from the whirlpool that now engulfs us to a new incarceration system which is less costly, consistent, and equitable, and maintains strict security conditions for those felons who require it. To this end, I am today asking the Chief Justice, the Speaker of the House and the President Pro Tem of the Senate, the Attorney General and the Commissioner of Corrections, or their designates, to join my former Executive Assistant David Swayze in forming a working group which will consider and report to each of the branches by year end its recommendations for change. Their examination should include close scrutiny of all mandatory sentencing laws in Delaware and other jurisdictions, and alternatives to incarceration, including those now in effect in Delaware for lesser offenders.

## THE BUDGET

In his Inaugural address last week, President Reagan spoke eloquently of the heavy burden and severe distortions inflation have placed upon the American family: "We suffer from the longest and one of the worst sustained inflations in our national history. It distorts our economic decisions, penalizes thrift and crushes the struggling young and the fixed-income elderly alike. It threatens to shatter the lives of millions of our people."

The burden has been no less difficult for State Government. In the past two years, the Philadelphia Consumer Price Index has risen 11% and 12 1/2%. This inflationary pressure has had its effect on government services, as we have battled year after year to deliver adequate services at an affordable cost to the taxpayer. Our schools, hospitals, and prisons, our service programs and recreational resources have all been suffered under continually rising costs. Chief among these costs are the enormous increases in energy costs, and employee salary and fringe benefit costs, which have in the past several years taken the largest share of our increased revenues.

The dual impact of inflation driving up costs, and the recession which has been retarding revenue growth makes next year's budget a very tight one. It is my firm conviction that we must properly maintain those programs that we choose to continue before we expand or begin new efforts. The budget I am presenting today follows this course: a basic budget covering the basic costs of government; and some new program proposals that should be folded into the budget as projected revenues for FY 1982 increase between now and passage of the budget in June. In the last session, the General Assembly appropriated a budget of \$633.7 million, plus an emergency appropriation of \$9.4 million for Medicaid payments in state institutions. This provided state government with total appropriations of \$643.1 million. As you will recall, the emergency appropriation of \$9.4 million was necessary to cover all expenses of government and to prevent an ever increasing excess of funds from accumulating, above and beyond the constitutionally established "Rainy Day" fund of 5% of General Fund Revenues.

For Fiscal Year 1982 I am proposing a similar approach. I am submitting for your consideration a budget bill totaling \$700 million and an emergency appropriation of \$11.4 million -- a total budget of \$711.4 million. This again will prevent the unnecessary build-up of surpluses in addition to the "Rainy Day" fund, which is projected to reach \$35.6 million this year -- a total of 5% of General Fund revenues. After accounting adjustments, total expenditures under this budget, including Grants-in-Aid, are expected to reach \$712.4 million which is in balance with the DEFAC projected revenue of \$712.4 million. It will also be just \$3.1 million less than our constitutionally mandated spending limit of 100% of revenues.

## BUDGET INCREASES

My proposed FY 1982 appropriations are 9.5% larger than the current year's appropriations, considerably less than the inflation rate of approximately 12 1/2 percent, so that the cost of government in constant dollars will decline again, for the fourth straight year.

With the DEFAC revenue projection set at \$712.4 million, there was available to us an increase of \$64 million for allocation in the new budget. Of this increase, almost 40%, or \$24 million has been set aside for state employee salary increases; \$8 million more for energy and other cost increases for the operation of government, and \$16 million more for education. To put it in a different perspective, we have programmed a basic pay increase of 8% for state employees, a 6% inflation increase (compared to a 12 1/2% inflation rate) for general government operations, and 10% and 11% increases, respectively, for Division II and Division III in public education. Support programs for education - transportation, basic skills, and private placement of the handicapped require an additional \$5 million in increased funds next year.

Further, the budget contains increases to compensate for inflation in road repair costs, and to open the two new prisons that will open at the beginning and end of the coming fiscal year. These provisions complete the basic budget, although there are many other programs we would fund if revenues were available.

## REVENUE INCREASES

On January 15th, the Farmers Bank Commission signed an agreement on behalf of the State of Delaware to sell our stock in the bank. This agreement, if approved by the General Assembly by March 31, the last day for approval under the agreement, will result in the freeing of all state and school district funds, and the competitive investment of these funds in the commercial banking system effective September 30, 1981. At current investment yields, this could mean approximately \$9 million of additional revenues for the state in the coming fiscal year. Because legislative consideration will not come until March, I am unable to include these revenues, in my budget today. But I very much hope approval by the Legislature will be forthcoming so that these revenues and any additional revenue growth may be used for the following priority programs:

o First, an education program that will provide the resources to improve the management, the educational atmosphere, and the operation of school districts. I have already spoken of alternative schools for disruptive youth which should receive top funding priority. We should also adopt a guaranteed annual unit count procedure to end the chaotic RIF-ing procedure so disruptive to students, teachers, and school districts alike. I am in support of such a proposal -- Rep. Petrilli's H.B. 1 -- with the understanding that its gross cost not exceed \$550,000 per year. In addition, I am recommending a modification in the secretarial unit formula to increase secretarial support in larger school districts, and a change in the unemployment compensation system for school districts that will place future funding for the unemployment compensation fund upon the level of government responsible for paying the employee: federal, state or local.

These recommendations touch upon many of the financial troubles of the New Castle County School District; I believe they will help relieve the financial problems of those new districts. But I add, and underscore the firm need for the district or districts to keep their pledge to close some twenty under-utilized schools at the end of the school year and to implement the additional recommendations of the Financial Overview

Committee. My support for additional financial resources is absolutely dependent upon the keeping of this pledge.

o Second, an additional salary increment for State employees above the 8% provided in the basic budget. As I discussed earlier, this additional increase should be awarded within overall guidelines to those employees who have demonstrated superior achievement in this past year.

o Third, continued progress in overhauling and upgrading Delaware's road system. In the past two years we have invested \$15 million in overhauling our highways. This has brought about a dramatic improvement in a near devastated road system; but there is still a great deal to be done. We have not yet built into the budget an ongoing program of major road repair. Our highways, so important to our economic development and well-being are a tremendous investment not to be ignored. Out of any increase in revenues, a portion must be dedicated to another major effort of road repair.

o Fourth, an affordable, a carefully limited prescription drug program for

Delaware's elderly poor. You will recall that I vetoed such a measure last July because it did not contain funds for its implementation. I want to restate the basic understanding upon which rests my support for this program: it must be fully funded; it must be included in the budget package enacted by the General Assembly in June.

Following my veto of the legislation last July, I began two efforts to meet this need.

First, Secretary Schramm and I discussed with the Nemours Foundation a prescription drug program, identifying it as the number one medical need of Delaware's elderly. You will recall that the Foundation is obligated to spend about 2.5 million dollars each year on programs for the elderly in Delaware. Our discussions have been prolonged and frustrating, but I believe we may yet persuade the Foundation Trustees to support such a program. I hope to attend the Trustees meeting in Florida in March to complete our efforts for financing this program with Foundation resources.

Second, I asked Secretary Schramm to conduct a study of alternative health care programs, including pharmaceutical benefits, ranging from Medicaid extensions to 100% state funded programs. That study will be available shortly, but primary findings underscore the basic problem with programs of this kind: they are expensive and their cost is uncontrollable because they are entitlement programs; that is, once the program is enacted everyone falling within its provisions is entitled to its benefits, regardless of the cost to the state. It is impossible to know precisely how many people will apply, and what their entitled benefits may be, thus the cost of the program is not controllable.

The federal government, with all of its resources, has been unable to control the cost of entitlement programs. Social Security, Medicaid, and Medicare -- all have proven enormously expensive, impossible to control, and have produced annual federal budget deficits. For a small state like Delaware to enter an open-ended entitlement program is unwise for sooner or later such a program will have to be capped, cut back or discontinued. Thus, my support for a prescription drug bill must also depend upon firm cost controls being placed upon the program from the

start -- specifically, limitations upon both eligibility and how much an individual may draw in benefits in any year.

These limitations will protect us against escalating costs of unknown magnitude, and will insure that the state continues to live within its means. Should our efforts with the Nemours Foundation fail, we are preparing an appropriate proposal for consideration by the Joint Finance Committee.

- o Fifth, should additional revenues become available, the state should assume the costs of the family violence program which have formerly been paid by the Federal government.

- o Finally, I should mention one area where the executive and legislative branches of government still need to reach an understanding: the longstanding question of school bus contractor payments. There remain a 2 per pupil misunderstanding that I hope we can resolve between now and passage of the budget in June.

I believe that with the sale of the Farmers Bank and the improving economy as we emerge from the recession, revenue projections for the next fiscal year will rise substantially between now and June. Those revenues should be allocated to these priority programs if we are to continue to improve the quality of government services in Delaware.

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What I have outlined today is an agenda for Delaware's future. Our efforts commenced four years ago when we began constructing a solid financial base for our government. The paths to progress for Delaware have encountered many road blocks and no doubt will encounter many more, but we are progressing in our journey because we have attacked the difficult issues concerning the way our government works and what our government does. The progress I have detailed today and the agenda I have set forth for the future, chart Delaware's course for the 80's. As we embark upon this course, let me say that I will strive to continue the spirit of cooperation which has been the hallmark of the past few years of Delaware government. I know you will join with me in the spirit of doing what is best for Delaware.