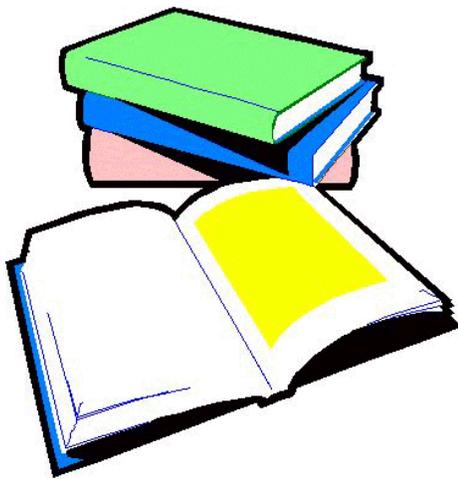


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***FISCAL YEAR 2004***  
***STATE OF DELAWARE***  
***GOVERNOR'S RECOMMENDED BUDGET***



*The Governor's Recommended Budget is comprised of both summary (narrative) and detailed (numeric) information at statewide, department, appropriation unit (APU) and internal program unit (IPU) levels.*

*Volume I of the recommended budget contains the narrative presentation including the highlights. Statewide financial schedules appear in the Appendix.*

*Volume II contains the detailed numeric data at each level in the form of Budget Development and Information System (BDIS) reports including recommendations.*

*Please refer to the Table of Contents for page location of specific department information or financial statements.*

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# FINANCIAL OVERVIEW

## RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2004 Recommended General Fund operating budget is \$2,432.7 million. In addition, the Governor has set aside \$35.5 million for Grants-in-Aid and \$7.3 million in dedicated cash to the Bond and Capital Improvements Program. Total recommended Fiscal Year 2004 General Fund appropriations are \$2,475.5 million. Total appropriations represent 98 percent of projected net Fiscal Year 2004 revenue plus carryover funds.

The Governor's Fiscal Year 2004 Recommended Bond and Capital Improvements Act totals \$392.4 million. Of this amount, \$134.0 million is recommended for state capital projects and \$258.3 million is recommended for transportation projects. Of the \$134.0 million, \$123.8 million is General Obligation Bond Authorization and \$10.2 million is recommended in other General Fund Revenue, reversions, reprogramming, and miscellaneous revenue.

Fiscal Year 2004 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 16, 2002. The Governor has recommended adjustments to these figures that increase the DEFAC estimates by \$58.9 million in Fiscal Year 2003 and \$166.2 million in Fiscal Year 2004. These recommended adjustments are as follows:

- ◆ An increase in Corporate Franchise Taxes, Limited Partnership and Limited Liability Corporation Fees of \$89.0 million.
- ◆ An increase in the Cigarette Tax from 24¢/pack to 50¢/pack which will generate \$23.5 million for Fiscal Year 2004
- ◆ An increase in Lottery proceeds to be generated through enhancements in Video Lottery which will generate \$16.0 million for Fiscal Year 2004.
- ◆ Decoupling from certain sections of the federal tax code which will generate \$14.0 million for Fiscal Year 2004.
- ◆ An adjustment in the DEFAC estimates for Abandoned Property of \$47.0 million for Fiscal

Year 2003 and \$11.0 million for Fiscal Year 2004 due to a large, unanticipated one-time settlement

- ◆ An increase of \$10.0 million Abandoned Property by allocating previously earmarked funds back to the General Fund.
- ◆ An increase of \$2.0 million in Personal Income Taxes by requiring pass through entities, such as Limited Liability Corporations and Limited Partnerships, to make estimated payments on behalf of non-resident shareholders.
- ◆ An increase of \$1.0 million in Personal Income Taxes due to projected increased collections activity.
- ◆ An increase of \$0.5 in Dividends and Interest due to a change in the accounting for transaction fees.
- ◆ An increase of \$4.4 million to the DEFAC Fiscal Year 2003 estimate for Other Revenue to account for a premium received in the January, 2003 General Obligation bond sale.
- ◆ A decrease of (\$0.8) million in Hospital Board and Treatment Sales due to the planned closure of the Governor Bacon Health Center.

In addition, the Governor has recommended that the Fiscal Year 2003 reversion estimate be increased by \$7.5 million. At the December 2002 meeting, DEFAC adopted a reversion estimate of \$31.0 million reflecting the Fiscal Year 2003 reductions the Governor had put in place. These additional reversions, reflecting continued spending reductions and cost containment initiatives will bring the total projected reversions for Fiscal Year 2003 to \$38.5 million.

## DEFAC REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 2003 at \$2,273.6 million and \$2,309.9 million for Fiscal Year 2004. The highlights of the forecast include:

- ◆ **Personal Income Tax** - This tax, closely modeled after federal income tax law, is

## FINANCIAL OVERVIEW

progressive in nature with marginal rates from zero to 5.95 percent. DEFAC estimates (after refunds) are \$694.6 million for Fiscal Year 2003 and \$734.3 million for Fiscal Year 2004.

- ◆ **Franchise Tax** - This tax is imposed upon domestic corporations incorporated in Delaware and is based on either the outstanding shares of stock of a corporation or on gross assets. DEFAC estimates (after refunds) are \$417.5 million for Fiscal Year 2003 and \$430.5 million for Fiscal Year 2004.
- ◆ **Business and Occupational Gross Receipts Tax** - This tax is imposed on the gross receipts of most businesses with tax rates ranging from .096 percent to 1.92 percent, depending upon the category of the business activity. DEFAC estimates are \$144.4 million for Fiscal Year 2003 and \$152.3 million for Fiscal Year 2004.
- ◆ **Lottery** – DEFAC estimates are \$223.7 million for Fiscal Year 2003 and \$227.6 million for Fiscal Year 2004. The large growth in this category over the past several years is primarily attributable to the implementation of video lottery operations.
- ◆ **Corporation Income Tax** - This tax is imposed on every domestic and foreign corporation doing business in Delaware, depending upon the amount of a corporation's taxable income that is apportioned and allocated to Delaware. DEFAC estimates (after refunds) are \$54.0 million for Fiscal Year 2003 and \$70.6 million for Fiscal Year 2004.
- ◆ **Bank Franchise Tax** - This tax is imposed on the net income of banks, trust companies and savings/building and loan associations and their subsidiaries. DEFAC estimates are \$121.0 million for Fiscal Year 2003 and \$127.0 million for Fiscal Year 2004.

## GOVERNOR'S POLICY OVERVIEW

Governor Minner's Fiscal Year 2004 Recommended Budget reflects a time of national economic distress, international turmoil, and increasing demands on state services. Nearly every state in the nation is struggling to deal with major deficits in Fiscal Year 2003 combined with soft revenues and significant spending pressures for Fiscal Year 2004. Delaware is feeling the same external pressures, but has been managing them aggressively and effectively. One indication of this is the recent reaffirmation of the State's AAA bond ratings.

The Governor's budget addresses a structural problem of \$300 million with a comprehensive strategy that employs the elimination or reduction of programs, positions, and discretionary funds, the retooling and re-engineering of existing government programs for greater efficiency and effectiveness, driving down mandated costs, and, as a last resort, increasing selected revenues.

This budget reflects the Governor's continuing commitment to the financial principles that underlie Delaware's AAA bond ratings and tradition of fiscal responsibility: it aligns ongoing revenues with ongoing appropriations; the Governor's Recommended Budget does not raid the State's emergency reserve fund; it avoids one-time fixes; and it preserves the essential state services of education, economic development, public safety, health care and children's services.

The proposed Fiscal Year 2004 operating budget totals \$2,432.7 million, an increase of 1.69 percent over the Fiscal Year 2003 operating budget.

Even with few new initiatives, this budget will address the goals to which this Administration is committed:

- ◆ Schools that set high standards and prepare children for college, work, and life;
- ◆ A Livable Delaware that strengthens communities and preserves quality of life;
- ◆ Health, safety and self-sufficiency for every Delaware family;
- ◆ Economic development that nurtures and maintains high quality jobs; and
- ◆ A state government that is well-managed.

### SCHOOLS THAT SET HIGH STANDARDS AND PREPARE CHILDREN FOR COLLEGE, WORK AND LIFE

- ◆ The Governor's Recommended Bond and Capital Improvements Act includes \$77,600.8 for public education projects. These projects include completing the funding for current building and renovation projects in the Colonial and Woodbridge districts as well as special school projects in the Christina and Caesar Rodney districts.
- ◆ The Governor is recommending \$2,000.0 in the Educator Accountability contingency for the accountability initiatives.
- ◆ The Governor is recommending \$5,300.0 in the Department of Education for projected unit growth of 90 Division I, II and III units in the 2003-2004 school year. An additional \$891.5 is recommended for the Academic Excellence Grant to cover projected increases in units and unit costs.

### A LIVABLE DELAWARE THAT STRENGTHENS COMMUNITIES AND PRESERVES QUALITY OF LIFE

- ◆ Recommended by the Governor is one-time funding of \$600.0 for Crop Insurance that will be used to provide cost share assistance to farmers.
- ◆ The Governor's Recommended Bond and Capital Improvements Act includes \$2,345.0 for the Conservation Cost Share Program, an important tool in protecting and improving environmentally sensitive areas such as the Inland Bays. Through the use of best management practices, the program prevents urban and agricultural non-point source pollution from reaching surface and subsurface waters, reduces soil erosion and provides wildlife habitat.
- ◆ To continue efforts to clean water the Governor's recommended Bond and Capital Improvements Act contain \$1,300.0 for the Clean Water State Revolving Fund. These funds will be used to match available federal

## GOVERNOR'S POLICY OVERVIEW

funds to help replace failing septic systems and improve water quality.

### HEALTH SAFETY AND SELF-SUFFICIENCY FOR EVERY DELAWARE FAMILY

- ◆ The Governor is recommending for the Department of Health and Social Services the use of almost \$5,000.0 ASF from the Tobacco Settlement Fund for new cancer initiatives recommended by the Delaware Advisory Council on Cancer Incidence and Mortality. This funding will implement the first-year recommendations for improving cancer prevention, diagnosis and treatment.
- ◆ The Governor is recommending \$547.1 ASF for a New Nurse Development project. This partnership with Delaware Technical and Community College will address the critical nursing shortage in Delaware by training and making available an additional 150 nurses for work in Delaware's health care industry.
- ◆ In support of continuing the improvement of Foster Care, the Governor recommends an increase of \$130.0 in the Department of Services to Children, Youth and their Families to annualize increased foster care board rates from Fiscal Year 2003 and an additional \$390.1 for foster care board rates to support 100 more children.
- ◆ The Governor is recommending an additional \$18,500.0 for Medicaid Non-State to cover projected inflation and volume increases.

### ECONOMIC DEVELOPMENT THAT NURTURES AND MAINTAINS HIGH QUALITY JOBS

- ◆ The Governor's Recommended Bond and Capital Improvements Act recommends \$10,000.0 for the Delaware Economic Development Office's Strategic Fund. The Strategic Fund promotes economic development by serving as a flexible funding mechanism used for retaining and enhancing the State's existing job base as well as the recruitment of new employers.
- ◆ The Governor is recommending \$1,500.0 in the Recommended Bond and Capital

Improvements Act for the Riverfront Development Corporation to continue the progress made in developing the Wilmington riverfront as both a tourist attraction and the impetus for job creation.

### A STATE GOVERNMENT THAT IS WELL-MANAGED

- ◆ The Governor recommends enhancing the State's ability to meet man-made and natural emergencies by creating a new Department of Safety and Homeland Security that consolidates those State entities whose function is public safety or emergency response into one agency. A feature of this reorganization is the moving of the Division of Motor Vehicles into the Department of Transportation. This move will free up almost \$10,000.0 in General Funds for reallocation or deficit reduction; align revenue generation with revenue use; help foster greater coordination of Clean Air attainment issues; and will enable the respective cabinet secretaries to full focus on agency core functions.
- ◆ The Governor is committed to a budget that lives within the State's means: to do this the Governor is recommending statewide base budget reductions totaling almost (\$40,000.0) and switching over (\$20,000.0) to non-General Fund funding sources.
- ◆ To continue to provide quality health care and pension benefits for State employees the Governor is recommending an additional \$6,500.0 to address an increase in the cost of employee health insurance. An additional \$17,524.7 is recommended to maintain retiree health and pension benefits.
- ◆ To improve service delivery to agencies, constituents and improve turn around time for web information updates, the Governor recommends moving the management and hosting of the State's web portal ([www.delaware.gov](http://www.delaware.gov)) from an outside vendor to the Department of State, Division of Corporations (for a saving of (\$600.0) ASF).
- ◆ The Governor recommends an increase of \$400.0 ASF and 6.0 ASF FTEs for the

## GOVERNOR'S POLICY OVERVIEW

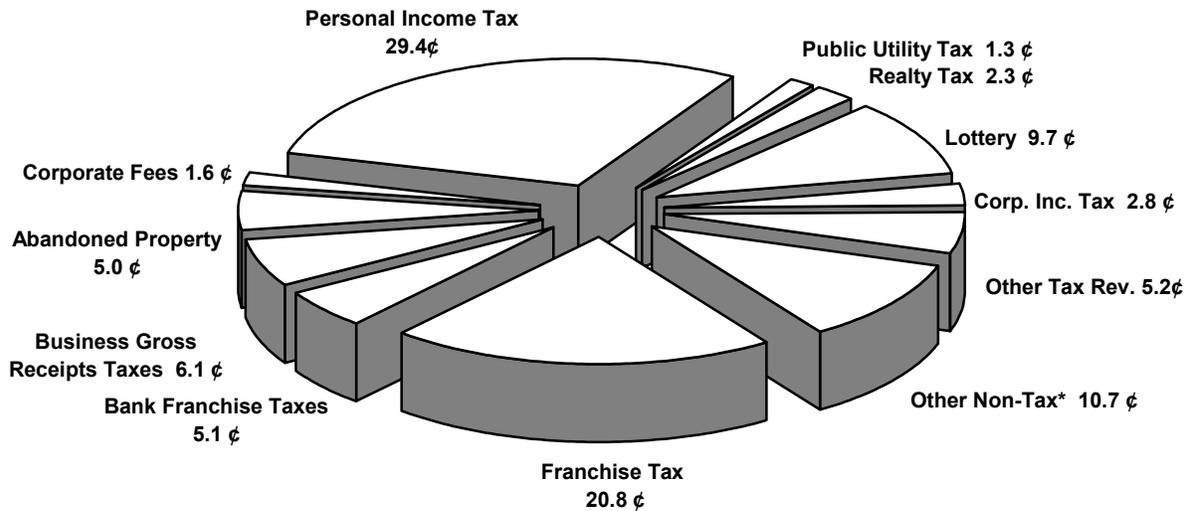
Department of Finance, Division of Revenue in Delinquent Collections to expand delinquent collections and enforcement efforts.

- ◆ The Governor's Fiscal Year 2004 Recommended Budget includes a number of revenue enhancements to close a structural gap. Although DEFAC revenue projections anticipate some growth in current revenues, the projections for Fiscal Year 2004 and Fiscal Year 2005 are significantly below the level of expenditures in Fiscal Year 2003. The Governor believes that a structural problem needs to be corrected with ongoing expenditure reductions and revenue actions and should not be solved with on-time actions and tapping of reserves.

# FINANCIAL SUMMARY

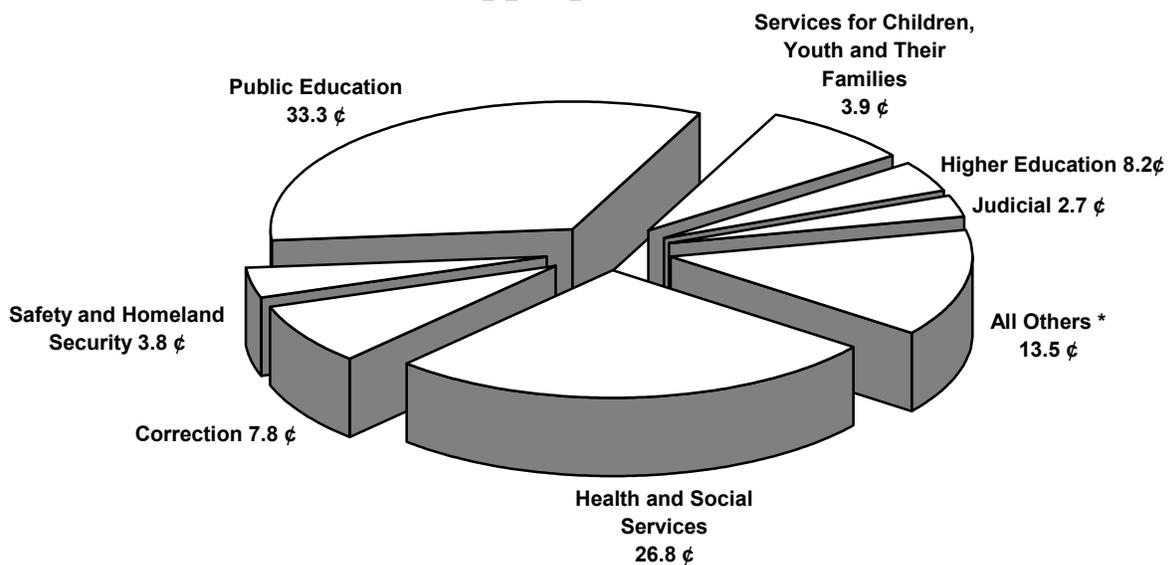
## BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2004

### Sources of Funds (Net of Refunds)



\* Includes Prior Year Unencumbered Cash Balance

### Appropriations



\* Includes One-Time Items

# FINANCIAL SUMMARY

## Estimated General Fund Revenue

The Delaware Economic and Financial Advisory Council (DEFAC), at the December 16, 2002 meeting, adopted a Fiscal Year 2004 revenue estimate of \$2,309.9 million.

Revenue Categories	(\$ MILLIONS)		
	2002 Actual	2003 Forecast	2004 Forecast
Personal Income Taxes	\$ 841.1	\$ 830.0	\$ 872.0
Corporation Income Taxes	180.4	97.0	105.6
Franchise Taxes	492.5	434.5	447.5
Business and Occupational Gross Receipts Taxes	137.9	144.4	152.3
Hospital Board and Treatment Sales	82.3	83.0	85.0
Dividends and Interest	30.5	18.0	18.6
Public Utility Taxes	29.2	31.3	32.5
Cigarette Taxes	27.9	34.0	35.7
Estate Taxes	41.6	23.9	16.7
Realty Transfer Taxes	50.2	57.0	57.0
Insurance Taxes	55.3	60.5	63.5
Abandoned Property	156.0	139.0	105.0
Corporate Fees	43.8	37.7	39.5
Bank Franchise Taxes	118.4	121.0	127.0
Lottery Sales	230.0	223.7	227.6
Limited Partnerships & Limited Liability Corporations	22.0	24.6	28.3
Uniform Commercial Code	13.4	13.3	10.8
Other Revenue by Department	88.9	125.1	94.6
<b>Total Receipts</b>	<b>\$ 2,641.3 *</b>	<b>\$ 2,498.0</b>	<b>\$ 2,519.2</b>
LESS: Revenue Refunds	(215.6)	(224.1)	(209.3)
<b>SUBTOTAL</b>	<b>\$ 2,425.7</b>	<b>\$ 2,273.9</b>	<b>\$ 2,309.9</b>
PLUS: Personal Income Taxes			3.0
Franchise Taxes/ Limited Partnerships & Limited Liability Corporations			89.0
Hospital Board and Treatment Sales			(0.8)
Cigarette Taxes			23.5
Decoupling			14.0
Abandoned Property		47.0	21.0
Dividends and Interest			0.5
Lottery Sales			16.0
Other Revenue by Department		4.4	
<b>TOTAL</b>	<b>\$ 2,425.7</b>	<b>\$ 2,325.3</b>	<b>\$ 2,476.1</b>

\* Amounts do not total due to rounding.

# FINANCIAL SUMMARY

## GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	<b>FISCAL YEAR 2003*</b>	<b>FISCAL YEAR 2004* RECOMMENDED</b>
Legislative	\$ 11,814.8	\$ 12,051.2
Judicial	65,547.0	66,619.9
Executive	114,634.3 **	75,372.4 **
Technology and Information	2,902.8 ***	29,755.9 ***
Other Elective	28,366.6	50,971.4
Legal	28,405.6	28,635.2
State	14,634.7	14,559.4
Finance	15,898.0	17,200.4
Administrative Services	39,578.2	41,292.0
Health and Social Services	632,616.1	651,312.8
Children, Youth and Their Families	93,159.8	93,753.8
Correction	186,621.4	189,312.9
Natural Resources and Environmental Control	37,456.8	35,567.0
Safety and Homeland Security****	97,541.5	91,965.6
Labor	5,971.8	6,160.2
Agriculture	6,589.9	6,667.0
Elections	3,247.8	3,308.3
Fire	3,892.2	3,858.6
National Guard	3,489.8	3,584.6
Exceptional Citizens	113.8	113.7
Higher Education	204,747.2	200,057.8
Public Education	794,961.3	810,617.2
<b>STATE TOTAL</b>	<b>\$ 2,392,191.4</b>	<b>\$ 2,432,737.3</b>

\* Does not include funding for Grants-in-Aid and cash to the Bond and Capital Improvements Act.

\*\* Includes One-Time Items to be allocated statewide.

\*\*\* Reflects the completion of the movement of appropriations and positions from the Office of Information Services to the Department of Technology and Information.

\*\*\*\* The Governor recommends the conversion of the Department of Public Safety to the Department of Safety and Homeland Security.