

Delaware

Office of the Governor



Policy and Financial Overview

Fiscal Year 2007

Governor Ruth Ann Minner

Governor Minner's Vision for Delaware

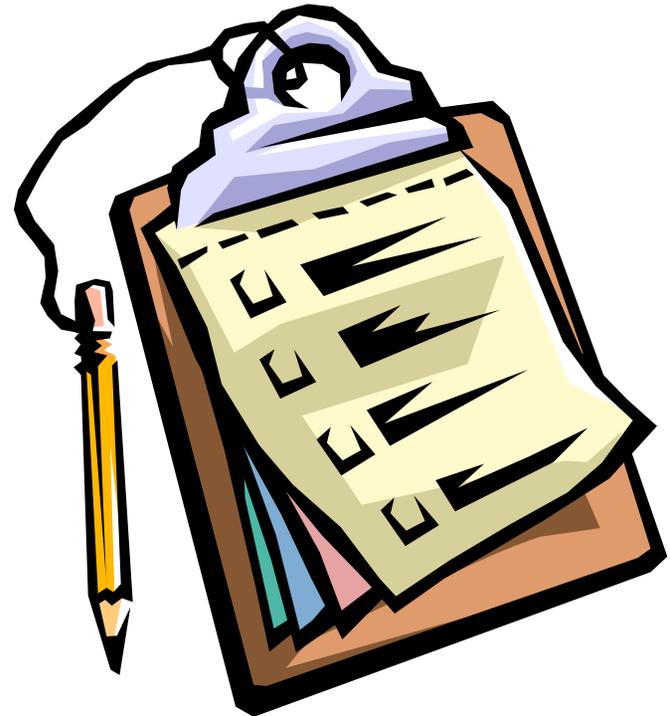
2005 – *“We plant seeds that one day will grow...knowing that they hold future promise.”*

2006 – *“...nurturing those seeds...putting our time, effort and resources into ensuring that they will grow and thrive to create a strong and healthy climate for our schools, our health, our environment, and our economy.”*

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

Governor's Financial Principles

- ◆ Preserving core state government services
- ◆ Building a sustainable financial plan
- ◆ Bolstering capital investments with pay-go funding
- ◆ Aggressive cost containment
- ◆ Addressing future liabilities
- ◆ Maintaining reserves



Budgeting in Uncertain Times

Delaware's economic forecast is solid...however the Governor has recommended a responsible approach to the financial plan due to:

- ◆ Increasing cost of core government services
- ◆ Federal budget cuts and cost shift to state
- ◆ Corporate restructurings
- ◆ Impact of Pennsylvania slots
- ◆ Cost of energy and raw materials
- ◆ Full-year effect of tax cuts

Budget Challenge

Starting Point - Operating

| | |
|------------------------------------|--------------|
| Example: 5.0% Budget Growth | \$ 141.8 |
| Total Demand over Fiscal Year 2006 | <u>294.5</u> |

Difference **\$ (152.7)**

Starting Point - Capital

| | |
|-----------------------------------|--------------|
| G.O. Bond Limit | \$ 157.6 |
| Total Non-Transportation Requests | <u>610.0</u> |

Difference **\$ (452.4)**



Governor's Recommended FY 2007 Financial Package

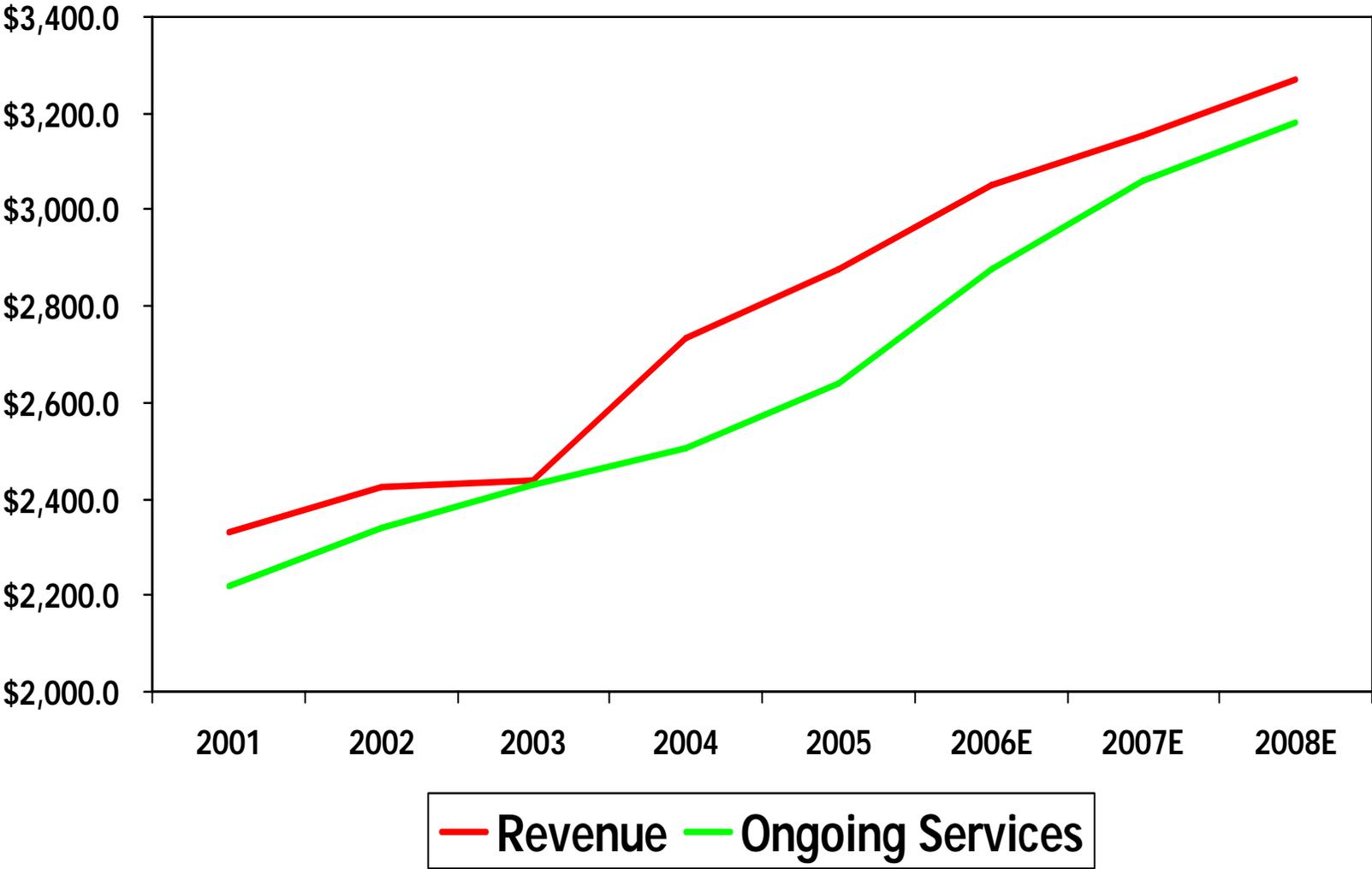
- ◆ **General Fund Operating Budget.....\$3,002.8 M**
 - ◆ GF Operating Budget Growth 5.69%

- ◆ **Bond and Capital Improvement Act.....\$402.1 M**
 - ◆ State Capital Projects \$285.6 M
 - G.O. Bonds \$157.6 M
 - Cash, Other \$128.0 M
 - ◆ Transportation Authorizations* \$116.5 M

- ◆ **Grants-In-Aid\$55.4 M**

*Total capital program (all sources) for the Department of Transportation is recommended at \$363.7 million.

The Fiscal Situation is Balanced Through 2008.....



Highlights of Governor's Financial Plan

Maintaining financial strength through a responsible budget plan that addresses core government services, implements the Governor's vision and provides a cushion to address pending issues.

- ◆ **Limit operating budget growth**
- ◆ **Appropriate less than 98 percent limit**
- ◆ **Fund long-term liabilities (Health Insurance/Pension/Other Post Employment Benefits)**
- ◆ **Address critical issues in January**
 - ◆ Low income home energy assistance programs
 - ◆ Energy shortfalls in public schools
 - ◆ Market pressure funds for school construction
 - ◆ Video Lottery Competitiveness Initiative

Improving Schools

- ◆ Full-day Kindergarten - \$6.7 million (Operating), continued support in the capital budget
- ◆ Math specialists (10) in middle schools - \$632,400
- ◆ SEED Scholarship \$600,000
- ◆ Public school construction and renovation - \$105.8 million
- ◆ Public education unit growth - \$10.6 million
- ◆ Public school transportation - \$8.3 million



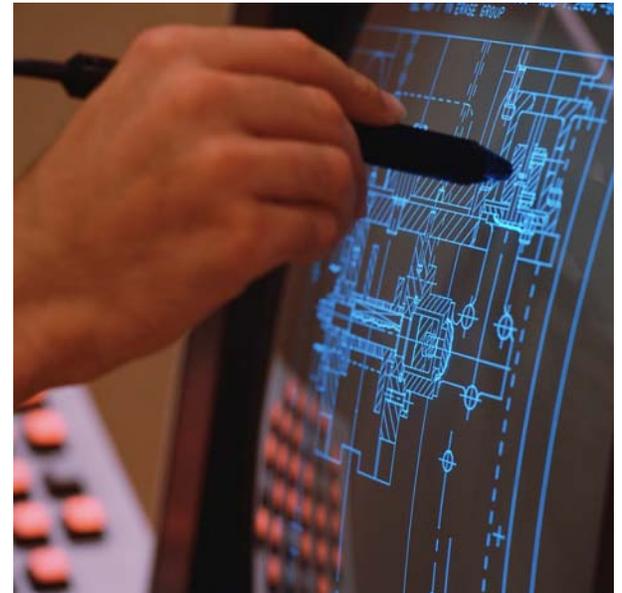
Health, Safety and Self-Sufficiency for Every Delaware Family

- ◆ Cancer Council recommendations - \$12.5 million
- ◆ Emergency Communication System (800 MHz) - \$13.7 million
- ◆ Veterans home operations - \$4.5 million
- ◆ Infant Mortality Task Force - \$2.0 million
- ◆ Nurse expansion phase II - \$1.1 million
- ◆ State trooper expansion Yr 2 - \$676,000
- ◆ AFIS - \$2.5 million
- ◆ Local Law Enforcement Technology - \$1.2 million
- ◆ Race/DNA analysis - \$100,000



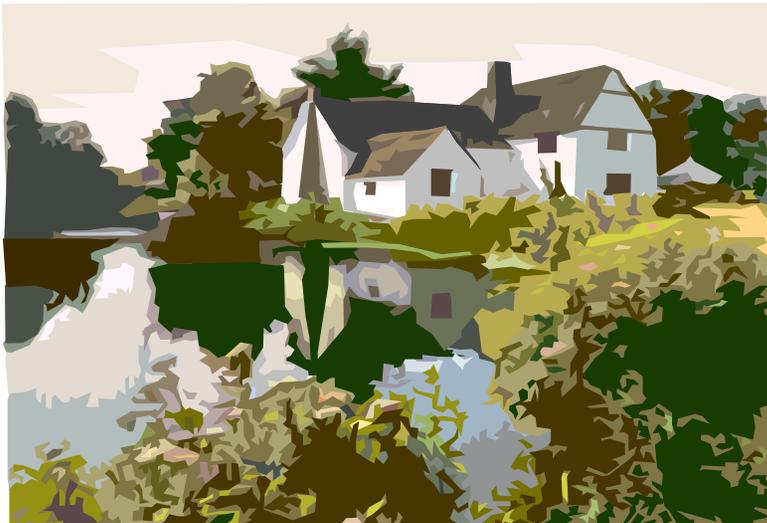
Creating and Retaining High Quality Jobs

- ◆ New Economy Initiative Year 3 - \$10.0 million
- ◆ Strategic Fund - \$10.0 million
- ◆ Fraunhofer Vaccine Development - \$1.0 million
- ◆ Diamond State Port Corporation - \$7.0 million
- ◆ Riverfront Development Corporation - \$5.0 million



Improving the Environment

- ◆ Continued support through dedicated revenue to:
 - ◆ Farmland preservation - \$10.0 million
 - ◆ Open Space - \$10.0 million
- ◆ Conservation Cost-Share \$3.2 million

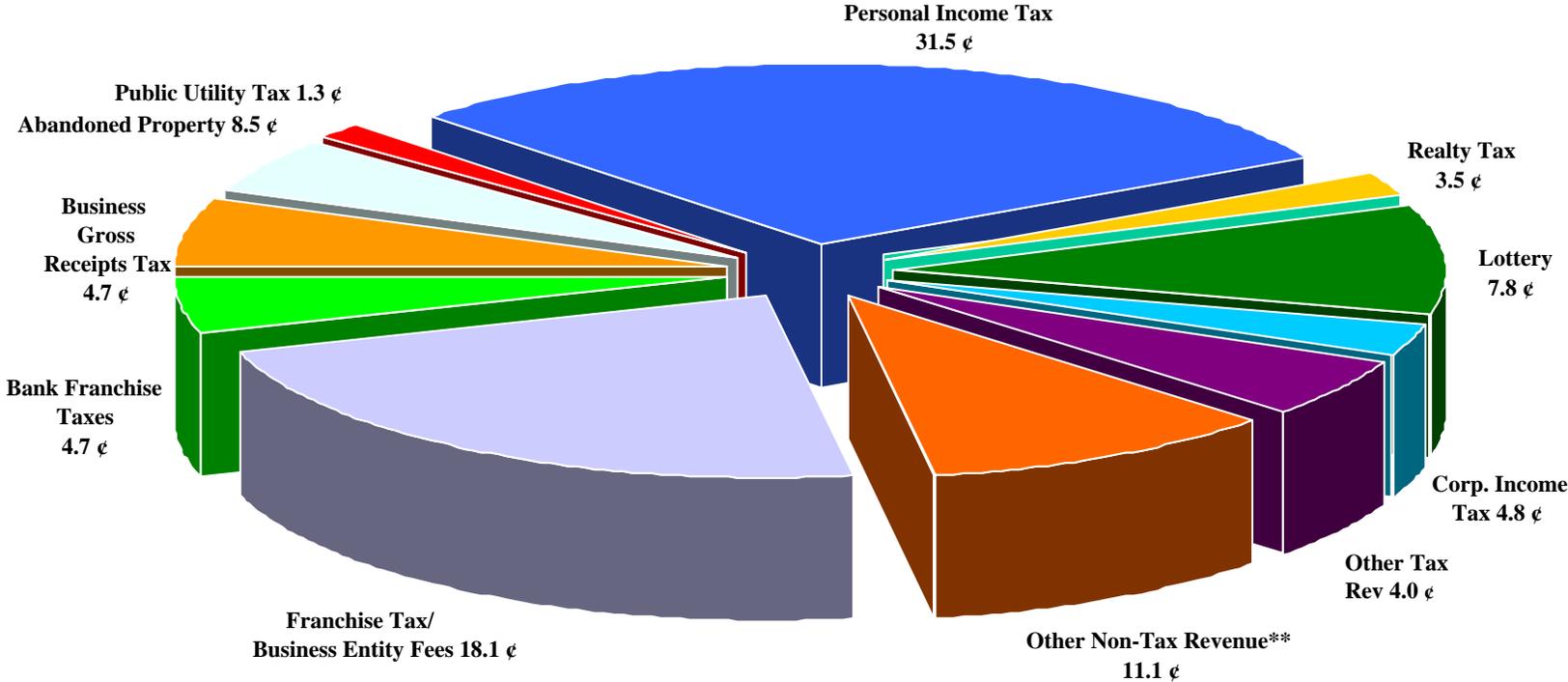


Major “Door Opener” Items

- ◆ Medicaid - \$59.4 million
- ◆ Employee Health - \$10.0 million
- ◆ Public Ed/DTCC Steps - \$6.2 million
- ◆ Pension - \$5.2 million
- ◆ OPEB - \$5.1 million
- ◆ Energy - \$3.1 million



Delaware FY 2007 Revenue Forecast

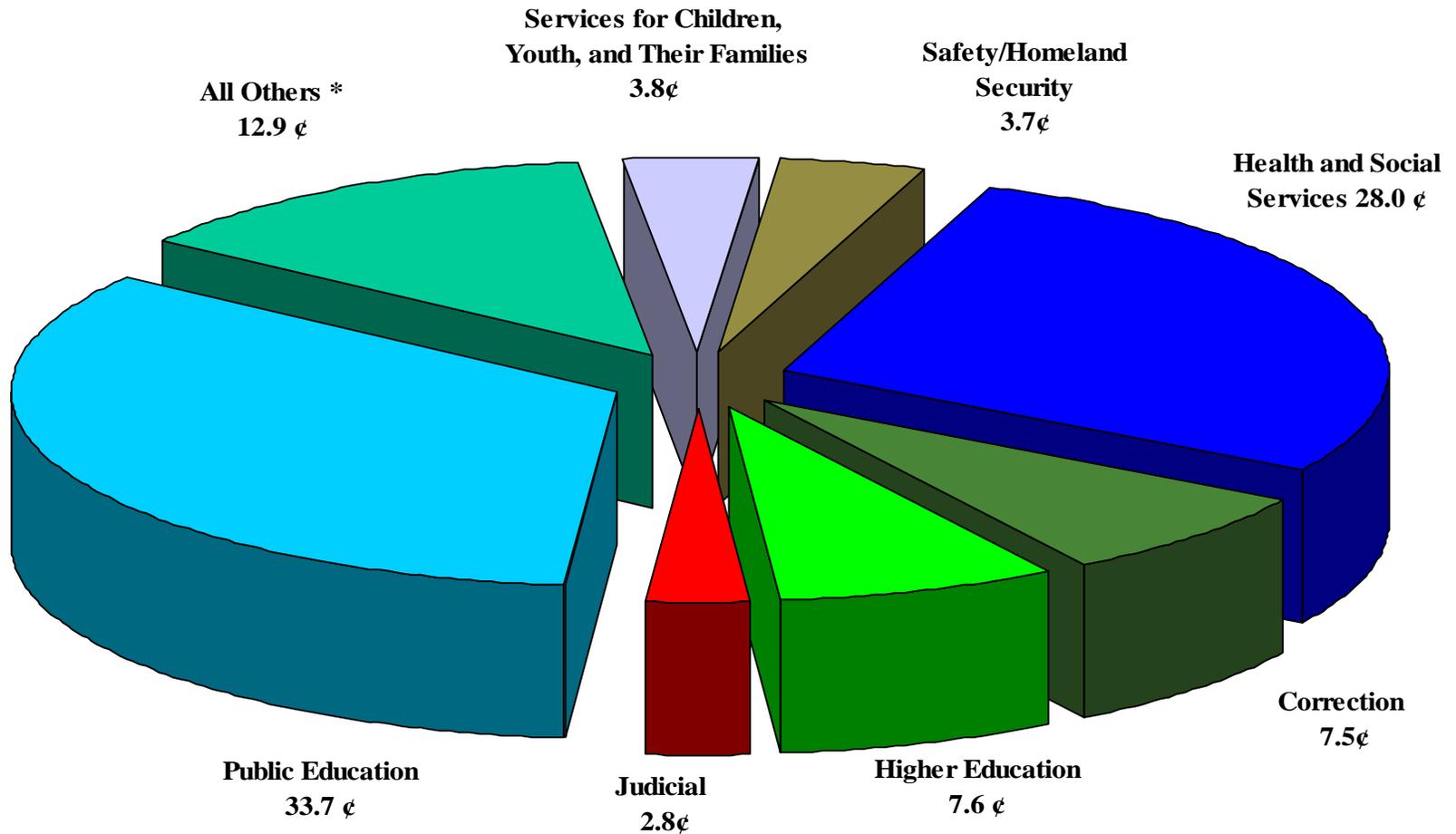


Revenue Dollar
Sources of Funds*

*Net of Refunds

**Includes Prior Year Unencumbered Cash

Governor's Recommended FY 2007 Operating Budget



Budget Dollar
General Fund Appropriations

*Includes One-Time Items

Fiscal Year 2007 General Fund Operating Budget

| <u>Agency</u> | <u>FY 2007</u> | <u>% Growth</u> * |
|----------------------------------|----------------|-------------------|
| Legislative | \$ 14,117.6 | 0.00% |
| Judicial | 83,111.9 | 2.70% |
| Executive | 137,193.2 | -0.01% |
| Technology & Information | 36,242.4 | 3.30% |
| Other Elective | 35,345.7 | 2.95% |
| Legal | 39,316.8 | 4.03% |
| State | 23,220.3 | 25.10% ** |
| Finance | 19,993.6 | 1.60% |
| Health & Social Services | 839,626.5 | 10.48% |
| Children, Youth & Their Families | 115,464.6 | 4.07% |
| Correction | 226,191.6 | 2.42% |

* As adjusted by FY 2006 personnel costs

** Includes appropriations for state veterans home.

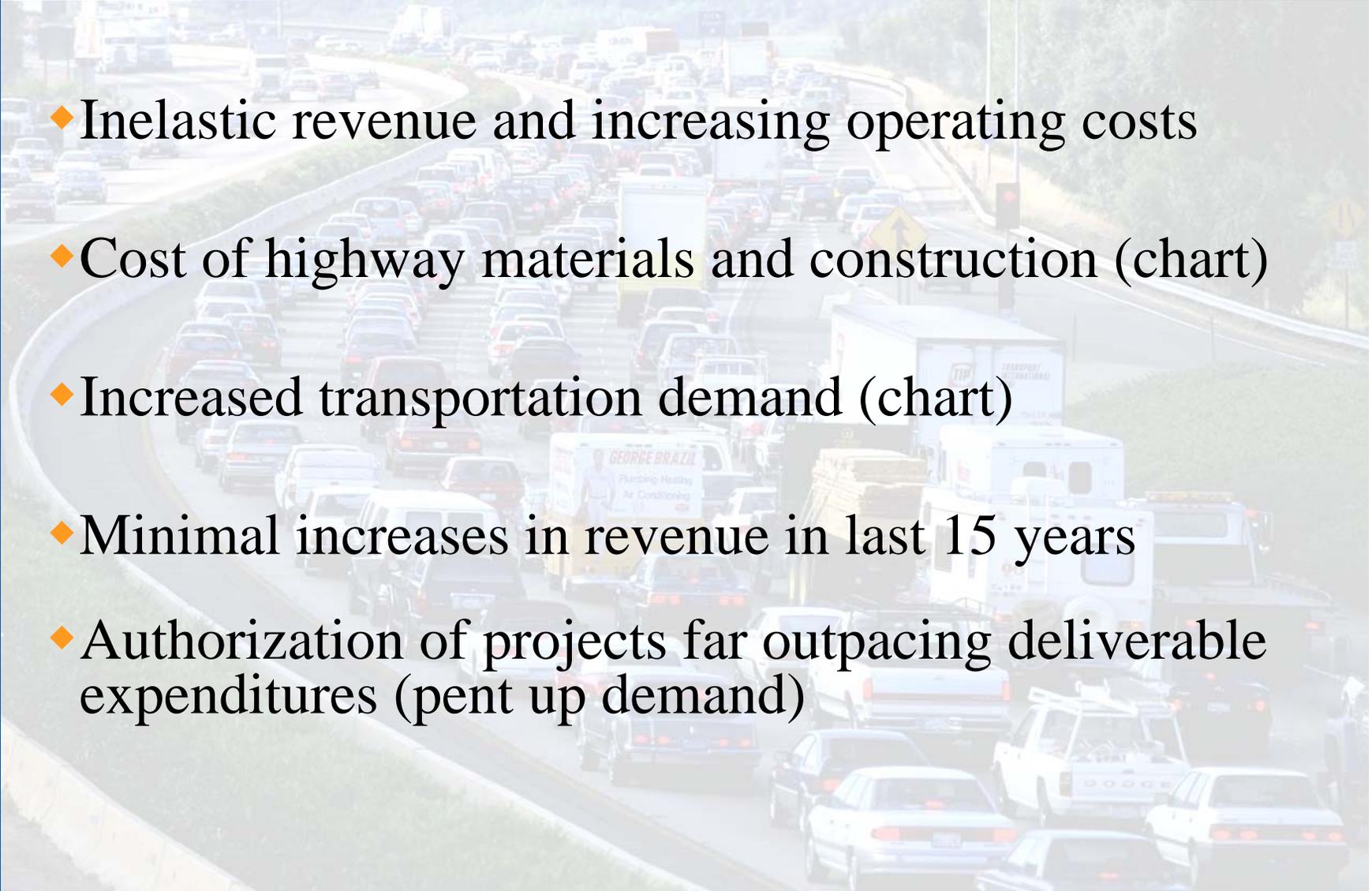
Fiscal Year 2007 General Fund Operating Budget

| <u>Agency</u> | <u>FY 2007</u> | <u>% Growth</u> * |
|-------------------------------|----------------------|-------------------|
| Natural Resources | 39,142.4 | -1.76% |
| Safety & Homeland Security | 112,568.0 | 2.92% |
| Transportation | 14,000.0 | 0.00% |
| Labor | 6,981.7 | 0.96% |
| Agriculture | 7,716.5 | 1.11% |
| Elections | 3,846.5 | -0.33% |
| Fire Prevention Commission | 4,516.0 | 2.05% |
| National Guard | 4,273.2 | 3.55% |
| Exceptional Citizens | 161.8 | 0.33% |
| Higher Education | 228,332.1 | 2.95% |
| Public Education | 1,011,461.9 | 4.46% |
| Total Operating Budget | \$3,002,824.3 | 5.69%** |

* As adjusted by FY 2006 personnel costs

**As adjusted by FY 2006 energy supplemental

Transportation Challenge

- 
- ◆ Inelastic revenue and increasing operating costs
 - ◆ Cost of highway materials and construction (chart)
 - ◆ Increased transportation demand (chart)
 - ◆ Minimal increases in revenue in last 15 years
 - ◆ Authorization of projects far outpacing deliverable expenditures (pent up demand)

Transportation Challenge - Cost of highway materials and construction

| Item | 2000 | 2005 | Percent Change |
|--------------------|-------------|-------------|----------------|
| Equipment Operator | 21.35/hr | 23.95/hr | 12.2% |
| Concrete | 80.50 cu/yd | 92.50 cu/yd | 14.9% |
| Hot Mix | 35.07/ton | 44.90/ton | 28.0% |
| Fuel | \$142/tank | \$221/tank | 55.6% |
| Steel | \$0.85/lb | \$1.70/lb | 100% |
| Land | \$350k/acre | \$405k/acre | 15.7% |

Transportation Challenge - Increased transportation demand

| Item | 2000 | 2004 | Percent Change |
|------------------------|-------------|-------------|-----------------------|
| Population | 783,000 | 838,913 | 7.1% |
| Vehicle Registrations | 630,440 | 808,942 | 28.3% |
| Licensed Drivers | 484,801 | 604,119 | 24.6% |
| Transit Services Hours | 390,559 | 422,250 | 8.1% |
| Transit Service Miles | 5,863,766 | 6,182,811 | 5.4% |

Comprehensive Transportation Solution

Multi-Dimensional Strategy

Short-term (6 months)

- ◆ Executive Order
- ◆ Continue cost shift to GF
- ◆ Reauthorize TTF Plan
- ◆ Cash

Mid-term (6-12 months)

- ◆ Pilot P3/Concession on Rt 301
- ◆ Infuse revenues based on revised TTF Plan

What others are saying...

- ◆ The National Center for Policy Analysis (NCPA) rates Delaware at the top of the index rating Economic Freedom
- ◆ Delaware was rated as the best state for locating a biotechnology business - Battelle Memorial Institute
- ◆ The Political Economy Research Institute (PERI) rated Delaware as the best in terms of work environment
- ◆ Inc.com, rated:
 - ◆ the city of Dover as having the 12th fastest, most sustained growth in the country
 - ◆ Wilmington was rated 34/119 as best places to locate a small business

What others are saying...

- ◆ *“Delaware’s premier credit standing centers on its considerable economic and financial resources, the latter of which is buttressed by institutionalized protections”* – Fitch
- ◆ *“The (Aaa) rating reflects a state economy that held up better than that of many other states, (and) tightly managed finances...”* – Moody’s
- ◆ *“The stable outlook reflects the expectation that the state’s prudent financial and debt management practices will lead to continued sound financial operations.”* – Standard and Poor’s
- ◆ Delaware received a B+ for overall management from the Governing Performance Project.