
FISCAL YEAR 2010

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 2010 Recommended General Fund Operating Budget is \$3,063.5 million. In addition, the Governor has set aside \$40.8 million for Grants-in-Aid. Total recommended Fiscal Year 2010 General Fund appropriations are \$3,104.3 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2010 revenue plus projected carryover funds which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2010 Recommended Bond and Capital Improvements Act totals \$344.0 million. Of this amount, \$158.9 million is recommended for state capital projects and \$185.1 million is recommended for transportation projects. Of the \$158.9 million supporting state projects, \$155.9 million is General Obligation Bond Authorization and \$3.0 million is reversion and reprogramming of existing authorization.

Fiscal Year 2010 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates of December 15, 2008. The Governor has recommended adjustments to these figures that increase the DEFAC revenue estimates by \$31.8 million in Fiscal Year 2010. These recommended adjustments are as follows:

- ◆ An increase of \$24.0 million in Abandoned Property by allocating previously earmarked funds back to the General Fund.
- ◆ An increase of \$8.0 million in Realty Transfer Tax by allocating previously earmarked funds back to the General Fund.
- ◆ A \$0.4 million decrease to Hospital Board and Treatment due to the planned closure of Governor Bacon Health Center and Emily P. Bissell Hospital.
- ◆ A \$0.2 million increase in Other Revenue to deposit special fund revenue in the Department of Finance into the General Fund.

In addition, the Governor recommends the Fiscal Year 2009 reversion estimate be increased by \$159.2 million. At the December 2008 meeting, DEFAC adopted a reversion estimate of \$53.0 million to reflect initial Fiscal Year 2009 expenditure reductions that are a result of the management controls the Governor put in place in November 2008. The increased reversion estimate reflects the Governor's commitment to ending Fiscal Year 2009 in a positive cash position while maintaining the budget reserve account. It is anticipated that the additional reversions will be generated by continuing the management controls in place for Fiscal Year 2009, including the hiring freeze, reviewing purchase orders

over \$2,500 and by working with the General Assembly and the next administration to reduce expenditures by reviewing capital projects and using the seven percent budget reduction options requested of nearly every agency in the State. As such, the total projected reversions for Fiscal Year 2009 are recommended at \$212.2 million.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC has projected net General Fund revenue collections for Fiscal Year 2009 of \$3,224.5 million and \$3,085.9 million for Fiscal Year 2010. The highlights of the forecast include:

- ◆ **Personal Income Tax** - This tax, closely modeled after federal income tax law, is progressive in nature with marginal rates from zero to 5.95 percent. DEFAC estimates (after refunds) are \$973.2 million for Fiscal Year 2009 and \$988.5 million for Fiscal Year 2010.
- ◆ **Franchise Tax and Limited Partnership/Limited Liability Company Tax** - The Franchise 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. In addition, every domestic Limited Partnership and Limited Liability Company formed in Delaware and every foreign Limited Partnership and Limited Liability Company registered to do business in Delaware is required to pay an annual tax of \$250. DEFAC estimates (after refunds) for these categories are \$693.2 million for Fiscal Year 2009 and \$635.0 million for Fiscal Year 2010.
- ◆ **Business and Occupational Gross Receipts Tax** - This tax is imposed on the gross receipts of most businesses with tax rates ranging from .077 percent to 1.92 percent, depending upon the category of the business activity. DEFAC estimates are \$181.6 million for Fiscal Year 2009 and \$197.8 million for Fiscal Year 2010.
- ◆ **Lottery** - This category includes video lottery operations as well as traditional lottery sales. DEFAC estimates are \$240.5 million for Fiscal Year 2009 and \$231.3 million for Fiscal Year 2010.
- ◆ **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 \$90.0 million for Fiscal Year 2009 and \$57.0 million for Fiscal Year 2010.

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- ◆ **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 \$113.0 million for Fiscal Year 2009 and \$98.1 million for Fiscal Year 2010.
- ◆ **Abandoned Property** - Any debt obligation which has gone unclaimed or undelivered, or security that has remained undelivered for three or more years after the date the owner should have received it or was entitled to claim it must be reported to the State as abandoned property. DEFAC estimates are \$390.4 million for Fiscal Year 2009 and \$330.0 million for Fiscal Year 2010.
- ◆ **Realty Transfer Tax** - The State imposes a tax of 2 percent of the fair market value of the property divided equally between the grantor and the grantee. Local governments are permitted to levy a 1.5 percent tax. In cases in which the local levy exceeds 1.0 percent, the State rate decreases to 1.5 percent. DEFAC estimates are \$50.0 million for Fiscal Year 2009 and \$37.5 million for Fiscal Year 2010.

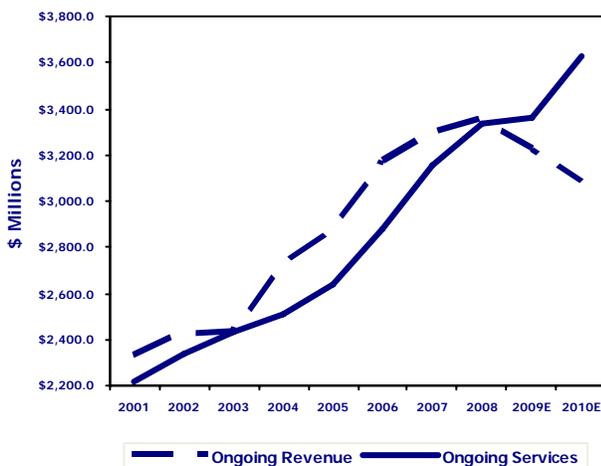
GOVERNOR'S POLICY OVERVIEW

Governor Minner's Fiscal Year 2010 Recommended Operating Budget is presented during a time of a dramatic slowdown in the national economy that is affecting state governments throughout the country. According to the Center for Budget and Policy Priorities, over 40 states (in grey) are projecting budget deficits for either the current and/or ensuing fiscal year.



The State of Delaware is not immune to this downturn. Since June 2008, the Delaware Economic and Financial Advisory Council (DEFAC) financial forecasts have reduced revenue estimates by \$226.1 million for Fiscal Year 2009 and by \$456.3 million for Fiscal Year 2010. Concurrently, while revenue estimates have fallen, the demand for state services, oftentimes the critical safety-net during an adverse economy, continue to rise. As such, policy-makers in Delaware are currently confronted with the dual challenge of not only closing a budget gap for Fiscal Year 2009, but also making the difficult choices associated with solving an unprecedented projected shortfall of \$556.8 million for Fiscal Year 2010.

The following graphic illustrates the extent to which ongoing revenues are projected to be less than ongoing appropriations for Fiscal Year 2010.



Governor Minner's response to this challenge has been proactive, swift and focused on maintaining the prudent fiscal practices that have been the hallmark of Delaware's AAA bond rating.

For Fiscal Year 2009, the Governor has implemented a series of management controls to curtail spending with the focus of ending the fiscal year in a positive unencumbered cash position while maintaining the State's budget reserve account. To date, \$55.1 million in savings have been generated to begin to close the forecasted shortfall. It is anticipated that additional savings will be generated by continuing the management controls currently in place, including the state's hiring freeze and review of purchase orders over \$2,500. Savings will also be generated by working with the General Assembly and next Administration on a comprehensive review of existing capital projects and by implementing measures contained within the seven percent mid-year budget reduction options requested of nearly every agency in the State.

Further, the proposed Fiscal Year 2010 financial plan is built upon a responsible, multi-faceted strategy to begin to prudently address the projected shortfall. This strategy incorporates a number of principles, namely:

- Identifying and protecting, to the extent possible, core government services;
- Reducing expenditures through base budget reductions, managing growth in entitlement and discretionary programs, and by re-engineering services; and
- Maximizing special funds.

The Governor's proposed Fiscal Year 2010 operating budget totals \$3,063.5 million, a decrease of 8.9 percent over the Fiscal Year 2009 Operating Budget. This budget, in combination with the Recommended Capital Budget and recommended set aside for Grants-In-Aid, is within the constitutionally mandated 98 percent limit on appropriations.

Included in the Governor's proposed budget are recommendations to close \$190.0 million of the projected Fiscal Year 2010 shortfall. This amount results from reduction efforts which include:

- \$30.8 million in base budget reductions;
- \$128.1 million in reductions to mandated costs and limiting growth in expenditures; and
- \$31.1 million in maximizing the usage and allocation of special funds.

However, the remaining shortfall is of such magnitude and complexity that the resolution must be carefully addressed through policy debate among the General Assembly and next Administration. The management

GOVERNOR'S POLICY OVERVIEW

controls implemented by Governor Minner included requesting agencies to develop 15 percent budget reduction options for Fiscal Year 2010. Some of these options are proposed in the Recommended Operating Budget. The majority of the options, though, will impact considerably the way our public schools and institutions of higher education operate; will affect the level of services provided to our most at-risk populations; and will require careful analysis of personnel costs throughout state government.

Accordingly, the Governor has recommended a series of Strategic Reduction/Investment Targets to provide a framework for consideration of additional budget reductions as compared to increased revenue, as budget hearings and deliberations continue for the remainder of the fiscal year. This includes agency specific Strategic Reduction/Investment Targets as well as targets for statewide Personnel Costs, Health and Social Services Assistance Programs, Public Education, and Reengineering/Higher Education initiatives. These targets represent difficult choices for policy-makers but are designed to help ensure Delaware maintains its prudent fiscal practices that have been the hallmark of its AAA bond rating, including, but not limited to, appropriating at 98 percent of available resources, maintaining the budget reserve account, and addressing future liabilities.

Throughout Governor Minner's administration, many accomplishments have occurred by focusing on the following policy priorities:

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

These accomplishments have included, but are not limited to, the implementation of full-day Kindergarten, providing math and reading specialists in schools, funding cancer treatment and screenings, increasing the number of troopers in the Delaware State Police, and implementing comprehensive foster care reform.

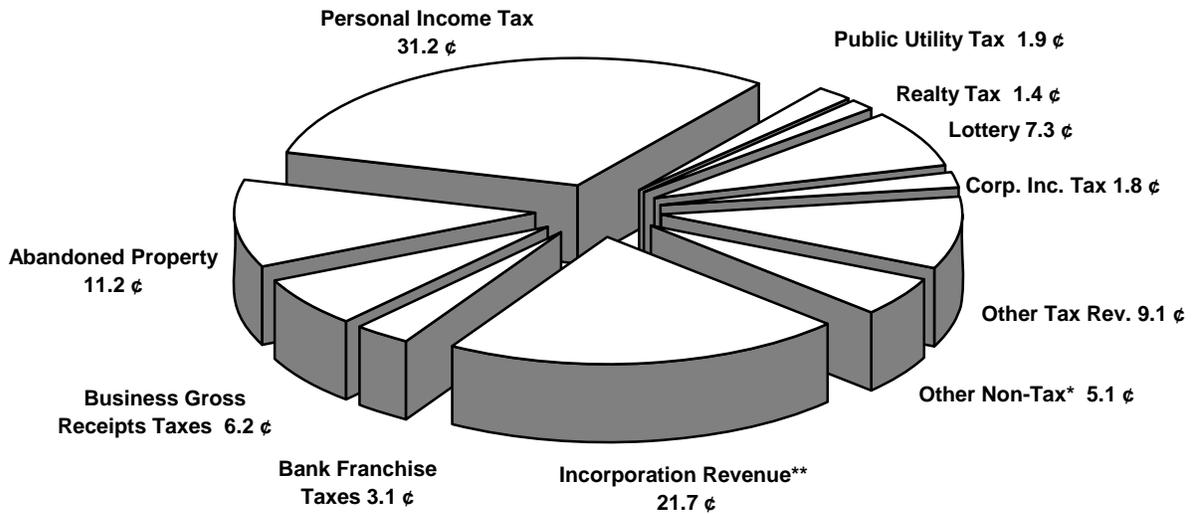
The development of the Fiscal Year 2010 financial plan, however, represents a landmark time for the State of Delaware. The decisions that policymakers will need to consider will be difficult but are of critical importance as they will position the state financially for years to come.

Bipartisanship must be combined with constructive dialogue on the future of state services offered to Delawareans. The Governor's proposed Fiscal Year 2010 operating budget represents a prudent approach from which policymakers can consider these challenges during a period of uncertain financial times.

FINANCIAL SUMMARY

BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2010

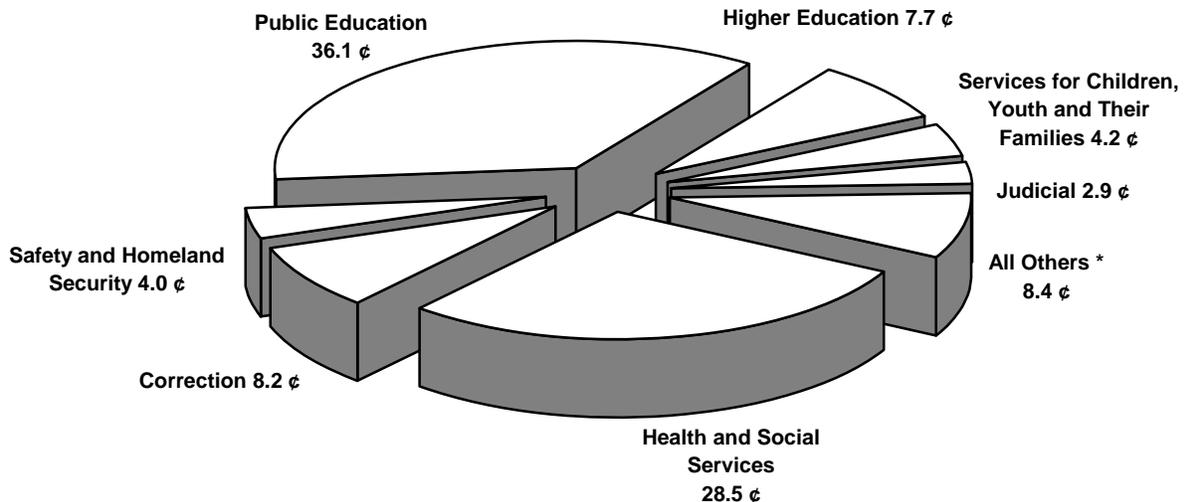
Sources of Funds (Net of Refunds)



* Includes Prior Year Unencumbered Cash Balance.

** Includes Corporate Franchise Taxes, Business Entity Fees, and Limited Partnerships & Limited Liability Corporations.

Appropriations



* Includes One-Time Items and Statewide Strategic Reductions/Investment Targets.

FINANCIAL SUMMARY

Estimated General Fund Revenue

The Delaware Economic and Financial Advisory Council (DEFAC), at the December 15, 2008 meeting, adopted a Fiscal Year 2010 revenue estimate of \$3,085.9 million.

	(\$ MILLIONS)		
Revenue Categories	2008 Actual	2009 Forecast	2010 Forecast
Personal Income Taxes	\$ 1,198.8	\$ 1,171.2	\$ 1,196.4
Corporation Income Taxes	227.8	140.0	102.0
Franchise Taxes	566.3	565.1	497.3
Business and Occupational Gross Receipts Taxes	162.1	181.6	197.8
Hospital Board and Treatment Sales	71.3	76.6	81.4
Dividends and Interest	32.9	17.7	19.0
Public Utility Taxes	48.1	57.0	58.2
Cigarette Taxes	125.3	130.0	131.3
Estate Taxes	0.3	0.0	0.0
Realty Transfer Taxes	76.0	50.0	37.5
Insurance Taxes	80.8	99.5	89.2
Abandoned Property	375.6	390.4	330.0
Business Entity Fees	63.4	50.4	51.9
Bank Franchise Taxes	129.7	113.0	98.1
Lottery Sales	252.5	240.5	231.3
Limited Partnerships & Limited Liability Corporations	107.6	138.1	147.7
Uniform Commercial Code	13.6	10.5	10.8
Other Revenue by Department	116.3	92.6	94.3
Total Receipts	\$ 3,648.4	\$ 3,524.2	\$ 3,374.2
LESS: Revenue Refunds	(291.8)	(299.7)	(288.3)
SUBTOTAL	\$ 3,356.7*	\$ 3,224.5	\$ 3,085.9
PLUS: Abandoned Property			24.0
Realty Transfer Taxes			8.0
Hospital Board and Treatment			(0.4)
Other Revenue by Department			0.2
TOTAL			\$ 3,117.7

*This figure is not the sum of the component factors to rounding of actual amounts.

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	FISCAL YEAR 2009	FISCAL YEAR 2010 RECOMMENDED*
Legislative	\$ 14,882.8	\$ 14,347.2
Judicial	90,368.9	88,805.6
Executive	152,889.8 **	(17,705.7) **
Technology and Information	39,105.2	36,339.4
Other Elective	34,360.4	55,321.2 ***
Legal	45,203.8	44,641.5
State	34,665.7	34,609.0
Finance	20,825.8	20,689.7
Health and Social Services	945,275.6	871,979.4
Children, Youth and Their Families	137,009.4	128,017.7
Correction	259,088.9	252,092.9
Natural Resources and Environmental Control	41,968.6	40,781.5
Safety and Homeland Security	124,813.4	123,391.0
Labor	7,471.4	6,682.3
Agriculture	8,686.3	8,372.2
Elections	4,099.8	3,938.0
Fire	4,712.8	4,592.5
National Guard	4,861.5	4,687.2
Exceptional Citizens	178.8	175.0
Higher Education	241,831.5	235,032.8
Public Education	1,150,575.4	1,106,663.1
STATE TOTAL	\$ 3,362,875.8	\$ 3,063,453.5

*Recommended appropriations include a Strategic Reduction/Investment Target due to economic conditions.

**Fiscal Year 2009 includes One-Time Items to be allocated statewide and Fiscal Year 2010 Recommended includes One-Time Items to be allocated statewide, as well as statewide Strategic Reduction/Investment Targets.

***Includes Debt Service.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

	Fiscal Year 2008 Actual	Fiscal Year 2009 Estimated	Fiscal Year 2010 Projected
Revenue	\$ 3,356.7	\$ 3,224.5	\$ 3,117.7
Appropriations			
Budget	3,285.6	3,362.9	3,063.5
Grants	47.7	45.2	40.8
Supplementals			
-enacted	77.9	83.4	
-estimated			
Total Appropriations	3,411.2	3,491.5	3,104.3
Continuing and Encumbered			
Appropriations (prior year)	335.8	234.8	248.5
Total	3,747.0	3,726.3	3,352.8
Less: Continuing & Encumbered			
Appropriations (current year)	(234.8)	(248.5)	(160.0)
Reversions	(90.6)	(212.2)	(10.0)
Total Ordinary Expenditures	3,421.6	3,265.6	3,182.8
Balances			
Operating Balance	(64.9)	(41.1)	(65.1)
Prior Year Cash Balance	590.9	526.0	484.9
Cumulative Cash Balance	526.0	484.9	419.8
Less: Continuing & Encumbered			
Appropriations (current year)	(234.8)	(248.5)	(160.0)
Reserve	(182.8)	(186.4)	(186.4)
Unencumbered Cash Balance	108.5*	50.0	73.4
Appropriation Limit			
Cumulative Cash Balance (prior year)	590.9	526.0	484.9
Less: Continuing & Encumbered			
Appropriations (prior year)	(335.8)	(234.8)	(248.5)
Reserve (prior year)	(175.4)	(182.8)	(186.4)
Unencumbered Cash Balance	79.7	108.5*	50.0
+Net Fiscal Year Revenue	3,356.7	3,224.5	3,117.7
Total (100% Limit)	3,436.4	3,333.0	3,167.7
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	\$ 3,367.7	\$ 3,266.3	\$ 3,104.3

Figures represent DEFAC revenue and expenditure estimates as of the December 15, 2008 meeting, plus Governor's Recommended Revenue and Expenditure Adjustments.

*This figure is not the sum of the component factors due to rounding of actual amounts.

FINANCIAL CHARTS

BOND AND CAPITAL IMPROVEMENTS ACT ENACTED AND RECOMMENDED FUNDING SOURCES (\$ Thousand)

SOURCE	Enacted FY 2008	Enacted FY 2009	Governor's Recommended FY 2010
STATE CAPITAL PROJECTS			
General Obligation Bonds	\$ 170,700.0	\$ 172,500.0	\$ 155,885.0
Reversions and Reprogramming	26,003.4	2,277.5	3,000.0
Bond Premium	8,897.1	-	-
K-12 School Construction Prioritization Fund	-	75,000.0	-
General Funds	77,900.0	83,391.3	-
Sub-Total (Non-Transportation):	\$ 283,500.5	\$ 333,168.8	\$ 158,885.0
TRANSPORTATION PROJECTS			
Transportation Trust Fund	\$ 200,130.5	\$ 191,079.6	\$ 185,112.0
Transportation Trust Fund - Reauthorization	55,911.5	77,512.1	-
Sub-Total (Transportation):	\$ 256,042.0	\$ 268,591.7	\$ 185,112.0
GRAND TOTAL:	\$ 539,542.5	\$ 601,760.5	\$ 343,997.0

