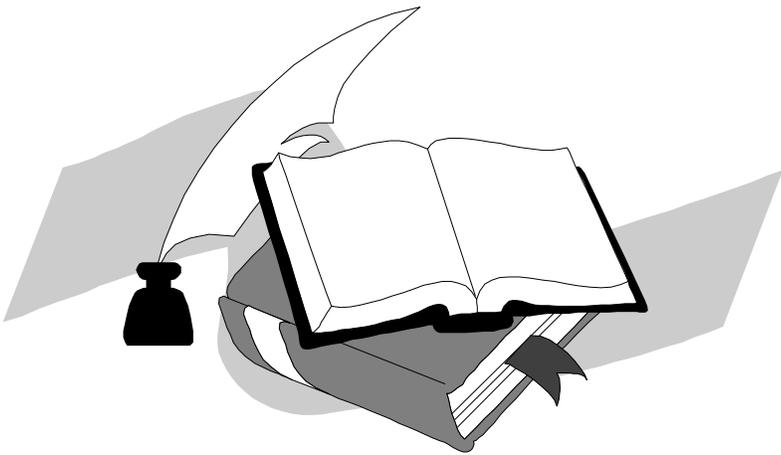

***FISCAL YEAR 2000
STATE OF DELAWARE
GOVERNOR'S RECOMMENDED BUDGET***



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.

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

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 Recommended Fiscal Year 2000 total General Fund operating budget is \$1,992.7 million. In addition, the Governor has set aside \$33.5 million for Grants-in-Aid. Total recommended Fiscal Year 2000 General Fund appropriations are more than \$2,194.7 million, including \$168.5 million in General Funds allocated to the Bond and Capital Improvements Act. Total appropriations represent less than 98 percent of projected net Fiscal Year 2000 revenue plus carryover funds.

The Governor's Recommended Fiscal Year 2000 Bond and Capital Improvements Act totals \$402.5 million. Of this amount, \$244.5 million is recommended for state capital projects and \$158.0 million is recommended for transportation projects. Of the \$244.5 million, \$75.0 million is General Obligation Bond Authorization, \$168.5 million is General Fund appropriations for pay-as-you-go projects, and \$1.0 million is recommended in other miscellaneous revenue.

Fiscal Year 2000 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 21, 1998. The Governor has proposed adjustments to these figures that decrease the DEFAC estimates by \$13.3 million in Fiscal Year 2000 and \$32.4 million in Fiscal Year 2001. They are as follows:

- ◆ The Governor proposes to reduce personal income tax rates across the board, including a reduction in the top rate from 6.4 percent to 6.3 percent, eliminate the marriage penalty, and increase the personal credit by 10 percent. This initiative, preceded by personal income tax cuts in three of the last four years, will result in an average rate reduction of nearly 19 percent from 1993 personal income tax levels. This tax cut is estimated to reduce the Fiscal Year 2000 DEFAC revenue estimate by \$11.3 million.
- ◆ Building on business tax reductions in 1997 and 1998, the Governor proposes to include a 25 percent cut to the gross receipts tax paid by manufacturers. This initiative is estimated to reduce the Fiscal Year 2000 DEFAC estimate by \$2.0 million.

REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 1999 at \$2,133.9 million and \$2,178.5 million for Fiscal Year 2000. The highlights of the forecast include:

- ◆ **Personal Income Tax** - This category accounts for approximately 34.7 percent of net Fiscal Year 2000 General Fund revenues. The tax, closely modeled after federal income tax law, is progressive in nature with marginal rates from zero to 6.4 percent. Net collections (after refunds) are projected to total \$762.2 million for Fiscal Year 1999 and \$755.0 million for Fiscal Year 2000.
- ◆ **Franchise Tax** - This category accounts for 21.4 percent of net Fiscal Year 2000 General Fund revenues. 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. Collections are projected to be \$432.0 million for Fiscal Year 1999 and \$466.6 million for Fiscal Year 2000.
- ◆ **Business and Occupational Gross Receipts Tax** - This category accounts for 5.9 percent of net Fiscal Year 2000 General Fund revenues. 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. Collections are projected to be \$129.7 million for Fiscal Year 1999 and \$128.3 million for Fiscal Year 2000.
- ◆ **Lottery** - This category accounts for 8.9 percent of net Fiscal Year 2000 General Fund revenues. Collections are projected to total \$173.1 million for Fiscal Year 1999 and \$194.7 million for Fiscal Year 2000. The large growth in this category over the past several years is primarily attributable to the implementation of video lottery operations. In March of 1998, the General Assembly reauthorized the installation of video lottery machines at the two harness and one thoroughbred horse racetracks in the state.
- ◆ **Corporate Income Tax** - This category accounts for 4.1 percent of net Fiscal Year 2000 General Fund revenues. 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. Net collections are projected to be \$84.0 million for Fiscal Year 1999 and \$89.0 million for Fiscal Year 2000.
- ◆ **Bank Franchise Tax** - This category accounts for 5.9 percent of net Fiscal Year 2000 General Fund revenues. This tax is imposed on the net income of banks, trust companies and savings/building and loan associations and their subsidiaries. Collections are projected to be \$127.7 million for Fiscal Year 1999 and \$128.0 million for Fiscal Year 2000.

GOVERNOR'S POLICY OVERVIEW

During the second term of Governor Carper's Administration, resources will continue to be targeted for the implementation of five major objectives. These are:

- ◆ Improving Education
- ◆ Fighting Crime
- ◆ Reforming Welfare and Strengthening Delaware Families
- ◆ Cutting Taxes and Ensuring Fiscal Responsibility
- ◆ Promoting Economic Development and Creating Jobs

The Governor's Fiscal Year 2000 Financial Recommendations support these objectives through targeted strategies and investments as follows:

IMPROVING EDUCATION

Investing in Delaware's education infrastructure

- ◆ The Governor's Recommended Bond and Capital Improvements Act includes \$48.6 million for public education projects. These projects include completing the funding requirements for capital projects in Red Clay, Appoquinimink, and Delmar school districts as well as setting aside \$13.0 million in a contingency for pending referenda projects.

Implementing Education Accountability in Delaware's Public Schools

- ◆ The Governor has recommended an additional \$612.6 and two positions for the Delaware State Testing Program (DSTP) to implement key testing and assessment components of the Education Accountability Act of 1998. The Governor has also recommended \$600.0 for DSTP scholarships, as required in the Accountability Act. These scholarships will reward the top performers on the State test. Scholarship awards will be placed into the Delaware College Investment Plan in the hope that this investment vehicle will produce favorable returns to increase the total amount available to the student for post-secondary education expenses.

Improving Professional Accountability and Professional Development

- ◆ The Governor has recommended \$10.8 million to implement the recommendations of the Education Salary Schedule Improvement Committee. The

committee has recommended increasing starting salaries to attract high quality teachers, lengthening the work year for teachers to allow more time for professional development, focusing on professional development activities that are eligible for salary credits, and significantly increasing the value of school based performance awards.

- ◆ The Governor has also recommended a total of \$620.9 additional funding for the Professional Accountability and Instructional Advancement Fund. Funding will be used to fully fund professional development at \$331.00 per certified employee, provide a 25 percent increase in funding for professional mentoring for new teachers, allow an additional 35 teachers to seek National Certification, and double the number of candidates in the Alternative Certification Program.
- ◆ The Governor has also recommended \$200.0 to increase the minimum daily rate for substitute teachers and a further \$20.0 to reimburse retired teachers for the cost of the criminal background check that is required before they can substitute teach.

Focusing on prevention and school discipline

- ◆ An additional \$870.0 has been recommended to expand school discipline programs. This enhanced funding will enable an additional ten Family Crisis Therapists (FCTs) to be placed in schools with high populations of at-risk students bringing the total number of FCTs to 34. Also, an additional \$320.0 has been recommended that will increase funding of the Alternative School Program by more than 15 percent.
- ◆ The Governor has also recommended expanding the Jobs for Delaware Graduates (JDG) program to two additional high schools for a total of 25 high schools. The goal of this program is to help at-risk students graduate from school and find jobs.

FIGHTING CRIME

Keeping dangerous criminals off our streets

- ◆ To enhance staffing and security at new and existing institutions and to improve the supervision of offenders on probation, the Governor's Recommended Budget includes \$11,968.1 and 312.0 FTEs for the Department of Correction. These positions are necessary to staff the new Administration Segregation Maximum Security

GOVERNOR'S POLICY OVERVIEW

Unit at the Delaware Correctional Center and the two new Violation of Probation Centers, and to reduce Probation and Parole caseloads for SENTAC Level III supervision from current officer to offender ratios of 1:45 to between 1:30 and 1:35.

Using technology to enhance security

- ◆ The Governor's Recommended Bond and Capital Improvements Act includes additional technology resources for an offender tracking information system in the Department of Correction. When fully operational, this computer system will allow the Department to electronically track important information concerning inmates, including security classification, court appearances and scheduled treatment programs. The project is expected to be fully operational in the year 2000.

Enhancing police protection to keep our streets and neighborhoods safe

- ◆ The Governor's Recommended Capital Improvements Act includes \$250.0 for 800 MHz system end-user equipment for state agencies. The 800 MHz system is a state of the art communications system that enables fire, ambulance, state and municipal police organizations to communicate more clearly and reliably statewide.

REFORMING WELFARE AND STRENGTHENING DELAWARE FAMILIES

Providing employment and support services to help Delawareans become self-sufficient

- ◆ A comprehensive national study unveiled in January of 1998 showed that Delaware's "A Better Chance" participants had a 24 percent higher employment rate, 16 percent higher earnings, and 18 percent lower average welfare payments than clients covered by traditional AFDC program requirements. Further, the total ABC caseload has dropped by more than 30 percent since 1994.
- ◆ The Governor is recommending an additional \$109.9 for the Division of Vocational Rehabilitation, which will be used to leverage federal funds for a total increase of over \$500.0 for direct client services. These funds will be used to serve over 120 clients with disabilities as they seek to gain or maintain employment.

Enhancing social services for working families

- ◆ Additional funding has been recommended to serve 800 more low-income children with subsidized childcare.

Investing in the health care needs of Delawareans

- ◆ The Governor's Recommended Budget includes an additional \$770.0 in the Department of Health and Social Services for community-based residential placements. These enhancements will enable mentally retarded individuals to remain in the community, rather than in an institutional setting, while receiving the services they need.
- ◆ An additional \$594.9 has been recommended for School-Based Health Centers to fully fund a recently opened center, provide start-up funding for three new centers, and cover inflation costs at existing sites. This enhanced funding, along with existing resources, will allow for a center in every Delaware high school that wants one. This recommended funding would bring the total appropriation for 28 wellness centers to approximately \$4.2 million.

Protecting Delaware's children

- ◆ The Governor's Recommended Budget includes additional funding to increase the State Adoption Subsidy to make it equivalent to the Federal Adoption Subsidy. In addition, funding has been proposed to increase the Foster Care Review Board payments by five percent. Both increases aim to assist adoptive and foster parents with the rising costs of raising a child.

CUTTING TAXES AND ENSURING FISCAL RESPONSIBILITY

Cutting taxes

- ◆ The Governor proposes to reduce personal income tax rates across the board, including a reduction in the top rate from 6.4 percent to 6.3 percent, eliminate the marriage penalty, and increase the personal credit by 10 percent. This initiative, preceded by personal income tax cuts in three of the last four years, will result in an average rate reduction of nearly nineteen percent from 1993 income tax levels.
- ◆ The Governor's Recommended Budget, building on business tax reductions in 1997 and 1998, includes a 25 percent cut to the gross receipts tax paid by manufacturers.

GOVERNOR'S POLICY OVERVIEW

PROMOTING ECONOMIC DEVELOPMENT AND CREATING JOBS

Promoting economic development

- ◆ The Governor's Recommended Bond and Capital Improvements Act includes \$10.0 million for the Economic Development 2000 initiative. This initiative is designed to support key economic development efforts in biotechnology and the life sciences – areas expected to be major growth sectors in the Delaware economy in the 21st Century. Funds will be provided for a partnership with the private sector and institutions of higher education, positioning Delaware to become a world leader in these areas.
- ◆ The Governor's Recommended Bond and Capital Improvements Act also includes \$12.0 million for the Diamond State Port Corporation. Of this total, \$10.0 million is dedicated for the capital improvements plan of the Port and will support ongoing capital improvements and warehouse expansions. The remaining \$2.0 million is recommended for the first year of a multi-year commitment toward improving the auto terminal facilities at the Port.
- ◆ To address the need for improved nutrient management while maintaining a strong agricultural economy, over \$2.3 million has been recommended in the Governor's Bond and Capital Improvements Act for the Conservation Cost Share Program. These funds will be used to offset part of the costs facing landowners as they incorporate best management practices to reduce nutrient runoff. Also included is \$200.0 to match with contributions from the federal government and the private sector for research to find practical, affordable solutions to the problem of reducing nutrient runoff from both rural and urban spaces.

Creating jobs

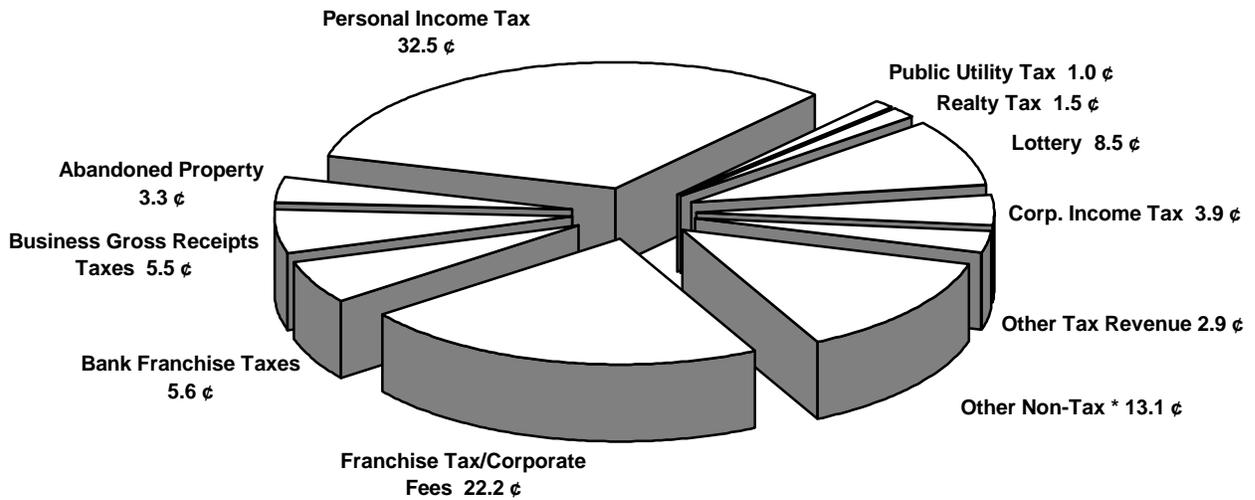
- ◆ The Governor's Recommended Bond and Capital Improvements Act has recommended an additional \$10.0 million for the Delaware Economic Development Office's Strategic Fund. The Strategic Fund promotes economic development by serving as a flexible source of funds to be used for retaining and enhancing the state's existing job base, as well as the recruitment of new employers. Since 1993, the Delaware Economic Development Office has used this fund to create or retain over 17,000 jobs.
- ◆ An additional \$5.0 million has been recommended in the Governor's Recommended Bond and Capital

Improvements Act to support ongoing revitalization of the Christina waterfront. These development projects create jobs; attract out of state visitors and tourist dollars; and promote economic development revitalization for nearby communities.

FINANCIAL SUMMARY

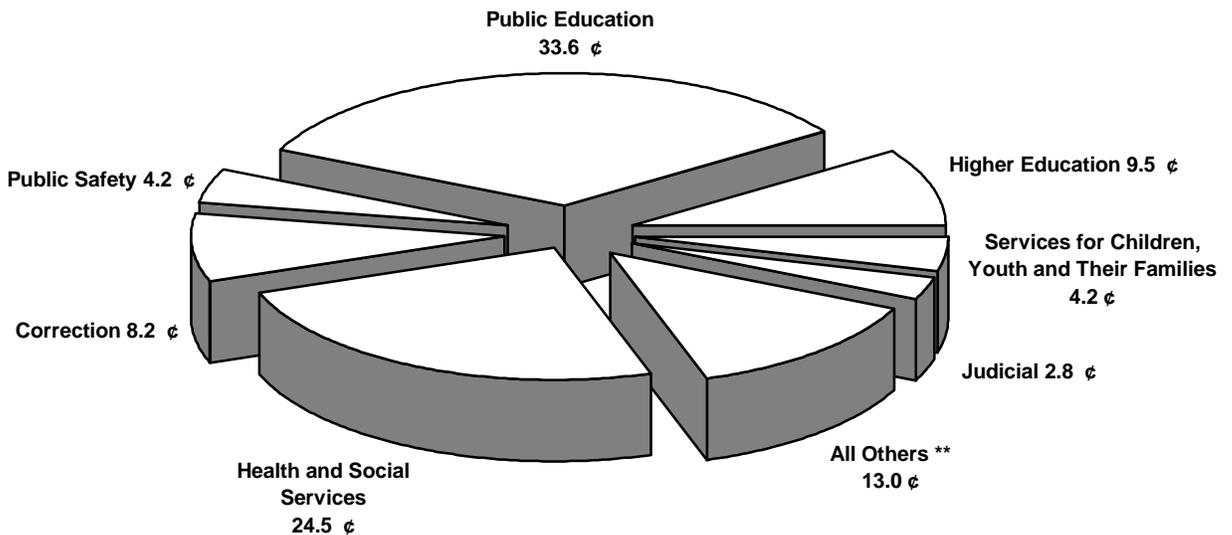
BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2000

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, at the December 21, 1998 meeting, adopted a Fiscal Year 2000 revenue estimate of \$2,178.5 million.

Revenue Categories	(\$ MILLIONS)		
	1998 Actual	1999 Forecast	2000 Forecast
Personal Income Taxes	\$ 867.2	\$ 877.2	\$ 880.2
Corporation Income Taxes	115.9	111.0	111.0
Franchise Taxes	395.8	432.0	466.6
Business and Occupational Gross Receipt Taxes	127.7	129.7	128.3
Hospital Board and Treatment Sales	80.3	80.3	83.0
Dividends and Interest	24.8	27.9	28.3
Public Utility Taxes	21.4	22.7	23.6
Cigarette Taxes	23.4	24.7	23.4
Inheritance and Estate Taxes	37.3	29.0	21.2
Realty Transfer Taxes	37.6	36.0	35.0
Insurance Taxes	31.2	34.0	35.5
Abandoned Property	106.7	90.0	75.0
Alcoholic Beverage Taxes	9.6	11.2	10.7
Business and Occupational License Fees	4.7	4.9	5.0
Corporate Fees	36.3	38.3	40.9
Bank Franchise Taxes	120.4	127.7	128.0
Court Fines and Costs	2.7	3.0	3.2
Public Accommodation Taxes	8.1	8.6	9.3
Lottery Sales	125.4	173.1	194.7
Other Revenue by Department	53.5	51.4	55.6
Total Receipts	\$ 2,230.2 *	\$ 2,312.7	\$ 2,358.5
LESS: Revenue Refunds	(184.0)	(178.8)	(180.0)
Subtotal	\$ 2,046.2	\$ 2,133.9	\$ 2,178.5
LESS: Personal Income Tax Adjustment			(11.3)
Gross Receipts Tax Adjustment			(2.0)
TOTAL	\$ 2,046.2	\$ 2,133.9	\$ 2,165.2

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

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	FISCAL YEAR 1999*	FISCAL YEAR 2000* RECOMMENDED
Legislative	\$ 10,586.7	\$ 10,957.1
Judicial	53,110.2	56,185.3
Executive	86,312.5 **	69,513.3 **
Other Elective	20,420.6	32,290.9
Legal	21,136.6	22,445.1
State	12,715.8	13,410.3
Finance	15,094.9	15,515.8
Administrative Services	38,476.5	38,419.3
Health and Social Services	467,118.6	487,968.8
Children, Youth and Their Families	79,474.5	84,003.5
Correction	141,163.6	164,119.6
Natural Resources and Environmental Control	34,699.0	36,058.8
Public Safety	80,241.2	84,002.4
Labor	5,301.8	5,559.4
Agriculture	4,793.2	5,037.4
Elections	2,850.1	2,988.2
Fire	3,564.5	3,619.7
National Guard	2,846.7	2,964.8
Exceptional Citizens	94.9	101.2
Higher Education	180,349.7	188,712.2
Public Education	637,513.9	668,852.4
STATE TOTAL	\$ 1,897,865.5	\$ 1,992,725.5

* 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.