State of Delaware
Office of the Governor

Financial Overview
Fiscal Year 2004

Office of the Budget
Released 1/30/03
## Economic Context

<table>
<thead>
<tr>
<th>FY 1993 - FY 2001</th>
<th>FY 2002 - FY 2003 (est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Delaware employment grows at an annual rate of 2.5%.</td>
<td>• Delaware employment <strong>falls</strong> at an annual rate of 1.0%.</td>
</tr>
<tr>
<td>• Delaware personal income grows at an annual rate of 5.7%.</td>
<td>• Delaware personal income grows at an annual rate of 3.7%.</td>
</tr>
<tr>
<td>• S&amp;P 500 grows at an annual rate of 15.2%.</td>
<td>• S&amp;P 500 <strong>falls</strong> at an annual rate of 17.2%.</td>
</tr>
<tr>
<td>• Real U.S. consumer expenditures grow at an annual rate of 3.8%.</td>
<td>• Real U.S. consumer expenditures grow at an annual rate of 2.7%.</td>
</tr>
</tbody>
</table>
Fiscal History

**FY 1993 - FY 2001**
- General Fund Operating budget grows at 7.1% annually.
- General Fund cash to the bond bill averages $114 million each year.
- Debt reduction initiatives in excess of $150 million.
- Personal Income Tax cut four times for a total reduction of about 25%.

**FY 2002 - FY 2003**
- General Fund Operating budget grows 4.7% annually.
- General Fund cash to the bond bill averages $15 million.
- No debt reduction initiatives.
- No across the board tax cuts.
- Significant budget cuts
Budget Cost Containment since CY 2001

- Jan. 2001 – Governor orders agencies to cut $35 million in FY 2001 Budget
- May 2001 – Governor submits FY 2002 proposals including $47.9 million in operating budget cuts and $63.7 million in capital project cuts
- Dec. 2001 – Governor orders agencies to make $21 million in cuts to FY 2002 budget
- March 2002 – Governor institutes hiring freeze for the duration of FY 2002 budget
Budget Cost Containment
since CY 2001 (cont’d)

- Fall 2002 – Governor identifies $60 million to close projected $95 million shortfall in FY 2003 budget
- Jan. 30, 2003 – Governor submits austere FY 2004 budget including additional reductions to the operating budget
Governor’s Financial Principles

- Cut discretionary funds and non-essential state services
- Preserve essential state services:
  - Education
  - Economic Development
  - Public safety
  - Health care
  - Children’s services
- Avoid one-time fixes
- Maintain reserves
- Align ongoing revenues to ongoing expenditures
Closing the Structural Deficit: All Options are on the Table

- Revenue
- Base Budget Cuts
- Retooling & Reengineering
- Driving Down Mandated Costs
Governor’s Expenditure Strategy

Structural Budget Solutions

- **Expenditures/Strategies**
  - Eliminate & reduce programs/positions/discretionary funds.
  - Re-tool existing government programs for greater efficiency/effectiveness.
  - Control growth in of state mandated costs.

- **Governor’s Goal**
  - At least 1/2 of $300 million solution to come through cuts to projected expenditures.

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Governor Recommends a Balanced Solution to Approx. $300M Shortfall

- **Retool/Reengineer**, $37.1 million (24%)
- **Reducing Mandated Costs**, $78.3 million (52%)
- **Base Budget Reductions**, $37.4 million (24%)

**Aggressive Cost Containment**

- **Cig**, $23.5 million
- **Lottery**, $16.0 million
- **Non-Res LLC/LP**, $2.0 million
- **Decouple**, $14.0 million

**Balanced Revenue Package**

- **Corp**, $89.0 million

Aggressive Cost Containment $152.8 million

Balanced Revenue Package $144.5 million
Governor’s Recommended Financial Package Fiscal Year 2004

- General Fund Operating Budget $2,432.7 M
  - GF Operating Budget Growth 1.69%
  - Lowest Budget Growth % since FY 1992
- Grants-In-Aid $35.5 M
- Bond and Capital Improvements Act $392.4 M
  - State Capital Projects $134.0 M
    - G.O. Bonds & Interest $123.8 M
    - Cash, Other $10.2 M
- Transportation Projects $258.3 M
Governor’s Fiscal Year 2004 Recommended Budget Highlights

- **Base Budget Cuts**
  - Reduce size of State Workforce – Goal 400+ positions ($6,000.0)
  - Carryover FY 2003 Reductions into FY 2004 ($15,338.1)
  - Public Ed Discretionary Allocation funding ($10,000.0)
  - Close Governor Bacon Health Center ($2,445.4)

- **Retool and Re-engineer Programs**
  - Department of Safety and Homeland Security
  - Reorganized Department of Transportation
  - Integrate DCET to DTI
  - Insurance Coverage Office to Budget Office
  - Boiler Safety to DNREC
  - Paramedic Cost Shift ($3,300.0)
  - School MCI’s to Bond Bill ($6,998.8)
  - Health Care Costs to Tobacco Fund ($2,232.5)
Governor’s Fiscal Year 2004 Recommended Budget Highlights

- Drive Down Mandated Costs
  - FY 2003 Cost Containment Strategies ($7,500.0)
  - Medicaid Growth
  - Employee Health Costs
  - Employee Pension Costs
  - P2 Project
Governor’s Fiscal Year 2004
Recommended Budget Highlights

- Improving our Schools
  - Public Ed Construction $77.6 million
  - Unit Growth $6.6 million
  - Public Ed and DTCC Steps $5.1 million
  - Educator Accountability $2.0 million
  - Pupil Transportation $1.6 million
  - Unique Alternatives $1.1 million

- Making Families Healthy, Safe and Self-Sufficient
  - Medicaid $18.5 million
  - TANF $760.4
  - DDDS Community Placements $960.3
  - Foster Care rates $390.1
Governor’s Fiscal Year 2004 Recommended Budget Highlights

- Protecting our Environment
  - Conservation Cost-Share $2.3 million
  - Clean Water Revolving Fund $1.3 million
  - Dams/Water Control Structures $1.0 million
  - Beach Preservation $1.0 million

- Attracting and Retaining Quality Jobs
  - Strategic Fund $10.0 million
  - Riverfront Development Corporation $1.5 million
  - Crop Insurance $600.0
Governor’s Fiscal Year 2004 Recommended Budget Highlights

- Managing State Government Well
  - GF Operating Budget Growth 1.69%, lowest budget growth since FY 1992
  - Appropriations are within constitutionally mandated limit of 98% of available revenues
  - Adjusted Operating budget growth (-1.0%) adjusting for costs of Medicaid, Pension, Health Insurance, Debt Service, School Unit Count and Prison population growth
Solving the Structural Deficit

- Other States
  - Exhausted Rainy Day Funds
  - Raided Tobacco Funds for non-health care costs
  - Securitized Tobacco Funds
  - Banked on other surpluses

- Governor Minner’s Plan
  - Appropriates 98% of Revenue
  - Does not raid Rainy Day Fund
  - Only use Tobacco Funds for health care related purposes
  - Aligns ongoing expenditures with ongoing revenues
  - Applies cash to bond bill projects
Preserving Health Benefits

- **Other States**
  - California – Eliminates 300,000 Medicaid recipients
  - Tennessee – Eliminates 250,000 Medicaid recipients
  - Oklahoma – Eliminates 80,000 Medicaid recipients

- **Governor Minner’s Plan**
  - Preserves benefits for most vulnerable including children, elderly and disabled.
  - No Delawarean will lose Medicaid coverage or benefits
Governor Minner’s Plan is Responsible

- Other States
  - Closed Motor Vehicle Facilities (VA)
  - Closed parks
  - Released prison inmates early (KY)
  - Closed museums
  - Proposed selling State office buildings (AZ)
  - Implemented 4 day week for Public Schools (CO)

- Governor Minner’s Plan
  - Preserves essential State Services
  - Fully funds spending obligations
  - Makes critical investments in economic development and state infrastructure
  - Creates the Department of Safety and Homeland Security
Managing Without Resorting to Drastic Measures

- **Other States**
  - Virginia has announced 1,800 layoffs
  - Layoffs contemplated in several other states including New Jersey

- **Governor Minner’s Plan**
  - State Government operates under hiring freeze....Governor Minner does not resort to layoffs
  - Goal is to reduce State workforce by 400 + jobs, over 3.0% reduction from FY 2003
Impact of Layoffs to Delaware

- Unemployment Insurance Benefits
- Medicaid
- TANF
- Food Stamps
- Loss of Tax Revenue
Delaware Recognized as Financially Sound

- Other States
  - 5 States bond rating downgraded by Moody’s
  - 12 States outlook downgraded by Standard and Poors

- Governor Minner’s Plan
  - Delaware bond rating of AAA, the highest given, is reaffirmed by all three bond rating agencies
  - Delaware January bond sale @ 3.73%....one of the lowest rates in the state’s history
## DEFAC General Fund Revenue

**Fiscal Years 2003 – 2004**  
*(as of January 27, 2003 DEFAC)*

<table>
<thead>
<tr>
<th>Revenue Categories</th>
<th>Forecast FY 2003</th>
<th>Forecast FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Taxes</td>
<td>$827.0</td>
<td>$868.8</td>
</tr>
<tr>
<td>Corporation Income Taxes</td>
<td>97.0</td>
<td>105.6</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>434.5</td>
<td>447.5</td>
</tr>
<tr>
<td>Gross Receipts Taxes</td>
<td>145.0</td>
<td>152.9</td>
</tr>
<tr>
<td>Hospital Board and Treatment Sales</td>
<td>83.0</td>
<td>85.0</td>
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<tr>
<td>Dividends and Interest</td>
<td>18.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Public Utility Taxes</td>
<td>32.0</td>
<td>33.2</td>
</tr>
<tr>
<td>Cigarette Taxes</td>
<td>35.0</td>
<td>36.8</td>
</tr>
<tr>
<td>Estate Taxes</td>
<td>21.9</td>
<td>16.7</td>
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<tr>
<td>Realty Transfer Taxes</td>
<td>58.5</td>
<td>58.5</td>
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<tr>
<td>Insurance Taxes</td>
<td>60.5</td>
<td>63.5</td>
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<tr>
<td>Abandoned Property</td>
<td>191.0</td>
<td>116.0</td>
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<tr>
<td>Corporate Fees</td>
<td>37.7</td>
<td>39.5</td>
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<tr>
<td>Bank Franchise Taxes</td>
<td>121.0</td>
<td>127.0</td>
</tr>
<tr>
<td>Lottery Sales</td>
<td>221.7</td>
<td>227.6</td>
</tr>
<tr>
<td>Limited Partnerships &amp; LLC</td>
<td>24.6</td>
<td>28.3</td>
</tr>
<tr>
<td>Uniform Commercial Code</td>
<td>13.3</td>
<td>10.8</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>129.5</td>
<td>94.6</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>$2,551.2</td>
<td>$2,530.9</td>
</tr>
<tr>
<td>LESS: Revenue Refunds</td>
<td>(224.1)</td>
<td>(209.3)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$2,327.1</td>
<td>$2,321.6</td>
</tr>
</tbody>
</table>
Governor’s Recommended Operating Budget Fiscal Year 2004
Revenue Dollar Sources of Funds*

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Revenue Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>29.4¢</td>
</tr>
<tr>
<td>Realty Tax</td>
<td>2.3¢</td>
</tr>
<tr>
<td>Lottery</td>
<td>9.7¢</td>
</tr>
<tr>
<td>Corp. Income Tax</td>
<td>2.8¢</td>
</tr>
<tr>
<td>Other Tax Revenue</td>
<td>5.2¢</td>
</tr>
<tr>
<td>Other Non-Tax Revenue**</td>
<td>10.7¢</td>
</tr>
<tr>
<td>Public Utility Tax</td>
<td>1.3¢</td>
</tr>
<tr>
<td>Abandoned Property</td>
<td>5.0¢</td>
</tr>
<tr>
<td>Business Gross Receipts Tax</td>
<td>6.1¢</td>
</tr>
<tr>
<td>Bank Franchise Taxes</td>
<td>5.1¢</td>
</tr>
<tr>
<td>Franchise Tax/Corporate Fees</td>
<td>22.4¢</td>
</tr>
</tbody>
</table>

* Net of Refunds
** Includes Prior Year Unencumbered Cash

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Governor’s Revenue Proposals

• Taxes decreased frequently since 1980
  • Personal income tax cut 9 times
  • Gross receipts tax cut 4 times
  • Gift and inheritance tax eliminated


• Governor’s Proposal includes the following:
  • Cigarettes
  • Video lottery
  • Corporate franchise
  • Federal decoupling
Cigarettes

- Current rate, since 1991, is 24¢/pack
- Surrounding states are all $1/pack or more; 35 states are higher than Delaware
- Higher rate may also help discourage smoking, especially by young people
- Governor’s Proposal is to increase tax to 50¢/pack
- Governor’s Proposal generates $23.5 million for FY 2004
Video Lottery

- Delaware’s 3 “racinos” have attracted far more play – and earnings – than originally expected
- Strong likelihood of imminent competition from Maryland and Pennsylvania
- Governor’s proposal will increase competitiveness of Delaware tracks by adding extra hours of play, more machines and new marketing tools
- Governor’s proposal also gives the state a bigger share of net revenue
- Governor’s Proposal will generate $16.0 million annually; an 8% increase
Corporate Franchise

- Includes taxes and fees paid by 550,000 entities for the privilege of basing their businesses in Delaware
- Entities drawn to Delaware by prestige, top notch service, favorable legal code, court system
- Rates have been increased periodically, most recently in 1969, 1984 and 1991 -- increased by 43% in 1991
- Inflation is up 33% since last increase
- Governor’s Proposal is to increase taxes and fees by 17%
- Governor’s Proposal will generate $89.0 million in FY 2004
Federal Decoupling

- Piggybacking state taxes on federal tax calculations is preferable -- saves taxpayers time and money
- But coupling also exposes states to unplanned and unaffordable revenue reductions
- 2001 and 2002 federal tax changes will result in $36 million reduction in our revenues for FY’04
- Preliminary assessment of the economic stimulus package proposed by President indicates significant additional revenue loss
- 32 states have decoupled to varying degrees from federal tax code to avoid such losses
- Governor’s Proposal is to selectively decouple, starting with the estate tax
- Governor’s Proposal will generate $14.0 million in FY 2004
Governor’s Recommended Operating Budget Fiscal Year 2004 Budget Dollar General Fund Appropriations

* Includes One-Time Items
## Operating Budget Appropriations
### Fiscal Years 2004

<table>
<thead>
<tr>
<th>Department</th>
<th>FY 2004</th>
<th>% change **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>12,051.2</td>
<td>-0.34%</td>
</tr>
<tr>
<td>Judicial</td>
<td>66,619.9</td>
<td>-0.86%</td>
</tr>
<tr>
<td>Executive</td>
<td>75,372.4</td>
<td>*</td>
</tr>
<tr>
<td>Technology and Information</td>
<td>29,755.9</td>
<td>*</td>
</tr>
<tr>
<td>Other Elective Offices</td>
<td>50,971.4</td>
<td>79.29%</td>
</tr>
<tr>
<td>Legal</td>
<td>28,635.2</td>
<td>-2.36%</td>
</tr>
<tr>
<td>State</td>
<td>14,559.4</td>
<td>-2.00%</td>
</tr>
<tr>
<td>Finance</td>
<td>17,200.4</td>
<td>5.42%</td>
</tr>
<tr>
<td>Administrative Services</td>
<td>41,292.0</td>
<td>3.62%</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>651,312.8</td>
<td>1.91%</td>
</tr>
<tr>
<td>Children, Youth &amp; Their Families</td>
<td>93,753.8</td>
<td>-1.11%</td>
</tr>
<tr>
<td>Correction</td>
<td>189,312.9</td>
<td>-0.78%</td>
</tr>
<tr>
<td>DNREC</td>
<td>35,567.0</td>
<td>-6.98%</td>
</tr>
<tr>
<td>Safety and Homeland Security</td>
<td>91,965.6</td>
<td>-6.65%</td>
</tr>
<tr>
<td>Labor</td>
<td>6,160.2</td>
<td>0.50%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6,667.0</td>
<td>-1.44%</td>
</tr>
<tr>
<td>Elections</td>
<td>3,308.3</td>
<td>-0.22%</td>
</tr>
<tr>
<td>Fire Prevention Commission</td>
<td>3,858.6</td>
<td>-3.21%</td>
</tr>
<tr>
<td>Delaware National Guard</td>
<td>3,584.6</td>
<td>1.01%</td>
</tr>
<tr>
<td>Exceptional Citizens</td>
<td>113.7</td>
<td>-2.64%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>200,057.8</td>
<td>-2.29%</td>
</tr>
<tr>
<td>Public Education</td>
<td>810,617.2</td>
<td>1.97%</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td>$ 2,432,737.3</td>
<td>1.69%</td>
</tr>
</tbody>
</table>

* Reflects movement of Department of Technology and Information.

**Adjusted for FY 2003 Personnel Contingency.
# Governor’s Recommended Capital Budget Highlights

**Fiscal Year 2004**

## Improving Education

<table>
<thead>
<tr>
<th>Public Libraries</th>
<th>$  1,709,900</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Delaware</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Delaware State University</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Delaware Technical and Community College</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Public Education - Construction/Renovation</td>
<td>77,600,800</td>
</tr>
</tbody>
</table>

## Protecting Delaware's Environment

| Conservation Cost Share Program                        |  2,345,000     |
| Beach Preservation                                     |  1,000,000     |
| Clean Water Revolving Fund                             |  1,300,000     |
| Dams/Water Control Structures                          |  1,000,000     |

## Economic Development and Job Creation

| Delaware Strategic Fund                                 |  10,000,000    |
| Riverfront Development Corporation                      |  1,500,000     |

## Investments in State Infrastructure

| Department of Transportation                            |  258,342,600   |
| Technology Fund                                        |  8,598,900     |
| Georgetown Motor Vehicles Facility                     |  6,600,000     |
| Kent County Courthouse Facilities                      |  3,337,100     |
| Maintaining State Facilities                           |  6,711,200     |
End of Presentation

Questions?