

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

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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.