State of Delaware

Office of the Governor

Policy and Financial Overview
Fiscal Year 2005

Office of the Budget
Released 1/29/2004

Do not alter without the permission of the Office of the Budget
Governor Minner’s Goals for Delaware

- Schools that set high standards and prepare children for college, work and life
- A Livable Delaware that strengthens communities and preserves quality of life
- Health, safety and self-sufficiency for every Delaware family
- Economic development that nurtures and maintains high quality jobs
- A state government that is well-managed
<table>
<thead>
<tr>
<th>Accomplishments</th>
<th>Improving Public Education</th>
<th>Economic Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livable Delaware</td>
<td>• Implementation of education reform &amp; results</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reading resource teachers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Teacher quality &amp; training</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• School construction &amp; renovation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Frivolous lawsuit legislation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Created &amp; retained 11,000 jobs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Attracted AAA headquarters to Riverfront</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Re-engineering organization to business model</td>
<td></td>
</tr>
<tr>
<td>Health and Self-Sufficiency</td>
<td>• Environmental Right to Know Act</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Above Ground Storage Tank regs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Comprehensive land use planning program</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Legislation to hold industrial executives personally liable for environmental accidents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Harsh punishments for repeat offenders of environmental laws</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Farmland preservation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Cancer Council</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Foster care initiative</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Community placements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Maintain cost-effective programs for needy and disabled</td>
<td></td>
</tr>
<tr>
<td>Well-Managed State Government</td>
<td>• Balanced budgets---and national recognition of financial plans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Maintained Triple-A Rating</td>
<td></td>
</tr>
</tbody>
</table>
State of the State Themes and Proposals

Improving Public Education

- Full Day Kindergarten Implementation - $1.0 million
- Reading Resource Teachers - $3.9 million
- Classroom textbooks and technology - $9.0 million
- Delaware Teaching Corps to help fill the critical need for math and science teachers in the middle grades - $50.0

Creating and Retaining High Quality Jobs

New Economy Initiative $46.0 million State/Match

- Spur new investments in existing facilities
- Provide seed and venture capital funding for Delaware entrepreneurs
- Support clean energy and fuel cell research
- Invest in research and development
State of the State Themes and Proposals

**Improving the Environment**
- Reduce the emissions of sulfur dioxide, nitrogen oxide and mercury from Delaware’s commercial power plants
- Green Infrastructure Program - $22.1 million

**Fighting Cancer**
- Double the funding for the Cancer Task Force Council recommendations to $10.0 million
  - Increase screening/early detection of colorectal cancer
  - Care coordination for all cancer patients
  - Treatment for the uninsured
  - Integrated prevention and awareness programs
### Key Economic Indicators are Strengthening

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaware Employment</td>
<td>0.1%</td>
<td>0.5%</td>
<td>2.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Personal Income</td>
<td>2.6%</td>
<td>4.7%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>
Revenue Risks Remain

- Recovery is in early stage, revenues dependent on further strengthening
- Federal budget deficits and trade deficit may limit recovery
- Federal budget cuts and tax cuts
- Slots Competition: up to $130 mm
- Impact of local business restructuring/re-engineering efforts
- Abandoned property revenue is inherently volatile
Limited Recommended Budget Growth Out of a Recession
Limited Budget Growth

“We should not use the recent economic upturn as an excuse to unleash budget growth. Over the last 30 years, the operating budgets enacted after an economic downturn have shown growth from 8 to 11 percent. That level of growth is not responsible and that will not be acceptable.”

Governor’s Recommended Fiscal Year 2005 Financial Package

General Fund Operating Budget . . . . . . . . . . . . $2,561.0 M
  ■ GF Operating Budget Growth 3.97%*

Bond and Capital Improvements Act . . . . . . . . . . $592.7 M
  ■ State Capital Projects . . . . . . . . . . . . . . . . . $319.0 M
  ■ G.O. Bonds $ 135.8 M
  ■ Cash, Other $ 183.2 M
  ■ Transportation Projects . . . . . . . . . . . . . . . $273.7 M

Debt Reduction . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $28.0 M

Grants-In-Aid . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $38.5 M

Cap Escheat Funds- hold at current level. . . . . . . . .

*Over FY 2004 Budget amended by pay supplement
Governor’s Recommended Fiscal Year 2005 Operating Budget
Revenue Dollar Sources of Funds*

* Net of Refunds
** Includes Prior Year Unencumbered Cash
### DEFAC General Fund Revenue

**Fiscal Years 2004-2005**

<table>
<thead>
<tr>
<th>Revenue Categories</th>
<th>Forecast FY 2004</th>
<th>Forecast FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Taxes</td>
<td>$ 878.9</td>
<td>$ 935.7</td>
</tr>
<tr>
<td>Corporation Income Taxes</td>
<td>109.4</td>
<td>128.4</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>522.3</td>
<td>523.2</td>
</tr>
<tr>
<td>Gross Receipts Taxes</td>
<td>157.5</td>
<td>167.0</td>
</tr>
<tr>
<td>Hospital Board and Treatment Sales</td>
<td>80.7</td>
<td>79.2</td>
</tr>
<tr>
<td>Dividends and Interest</td>
<td>17.0</td>
<td>17.6</td>
</tr>
<tr>
<td>Public Utility Taxes</td>
<td>33.0</td>
<td>34.2</td>
</tr>
<tr>
<td>Cigarette Taxes</td>
<td>71.0</td>
<td>80.8</td>
</tr>
<tr>
<td>Estate Taxes</td>
<td>16.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Realty Transfer Taxes</td>
<td>78.0</td>
<td>78.0</td>
</tr>
<tr>
<td>Insurance Taxes</td>
<td>53.6</td>
<td>55.3</td>
</tr>
<tr>
<td>Abandoned Property</td>
<td>245.0</td>
<td>245.0</td>
</tr>
<tr>
<td>Corporate Fees</td>
<td>47.5</td>
<td>50.7</td>
</tr>
<tr>
<td>Bank Franchise Taxes</td>
<td>136.1</td>
<td>146.2</td>
</tr>
<tr>
<td>Lottery Sales</td>
<td>223.6</td>
<td>232.1</td>
</tr>
<tr>
<td>Limited Partnerships &amp; LLC</td>
<td>51.4</td>
<td>56.5</td>
</tr>
<tr>
<td>Uniform Commercial Code</td>
<td>13.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>100.4</td>
<td>103.8</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>$ 2,835.6</strong></td>
<td><strong>$ 2,956.7</strong></td>
</tr>
<tr>
<td><strong>LESS: Revenue Refunds</strong></td>
<td><strong>(217.0)</strong></td>
<td><strong>(214.1)</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 2,618.6</strong></td>
<td><strong>$ 2,742.6</strong></td>
</tr>
</tbody>
</table>
FY 2005 Operating Budget

FY 2005 Governor's Recommended Budget 2,560,966.8 3.97%

Statewide Adjustments
Salary Policy (30,013.3)
Health Insurance Increases (17,000.0)
Pension Increases (11,391.6)
Debt Service (20,833.0)

FY 2005 Governor's Recommended Operating Budget 2,481,728.9 0.76%
(without salary, health, pension, debt)

*Percentage growth reflects adjusted FY 2004 Operating Budget for pay bonus
### Fiscal Year 2005 Operating Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2005</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>12,179.0</td>
<td>1.25%</td>
</tr>
<tr>
<td>Judicial</td>
<td>68,187.7</td>
<td>2.87%</td>
</tr>
<tr>
<td>Executive</td>
<td>98,482.5</td>
<td>1.69% *</td>
</tr>
<tr>
<td>Technology and Information</td>
<td>32,972.5</td>
<td>6.33% **</td>
</tr>
<tr>
<td>Other Elective</td>
<td>65,137.7</td>
<td>0.46% ***</td>
</tr>
<tr>
<td>Legal</td>
<td>30,553.6</td>
<td>6.81%</td>
</tr>
<tr>
<td>State</td>
<td>14,784.9</td>
<td>0.72%</td>
</tr>
<tr>
<td>Finance</td>
<td>17,937.9</td>
<td>4.54%</td>
</tr>
<tr>
<td>Administrative Services</td>
<td>43,891.3</td>
<td>1.98%</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>662,158.9</td>
<td>1.33% ****</td>
</tr>
<tr>
<td>DSCY&amp;TF</td>
<td>96,594.7</td>
<td>2.63%</td>
</tr>
<tr>
<td>Correction</td>
<td>194,122.0</td>
<td>2.53%</td>
</tr>
<tr>
<td>DNREC</td>
<td>35,737.4</td>
<td>0.49%</td>
</tr>
<tr>
<td>Safety/Homeland Security</td>
<td>92,233.5</td>
<td>1.36%</td>
</tr>
<tr>
<td>Labor</td>
<td>6,198.6</td>
<td>1.18%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6,726.8</td>
<td>1.94%</td>
</tr>
<tr>
<td>Elections</td>
<td>3,447.1</td>
<td>4.20%</td>
</tr>
<tr>
<td>Fire Prevention Commission</td>
<td>3,923.2</td>
<td>0.65%</td>
</tr>
<tr>
<td>National Guard</td>
<td>3,650.5</td>
<td>2.81%</td>
</tr>
<tr>
<td>Exceptional Citizens</td>
<td>116.7</td>
<td>2.64%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>205,498.5</td>
<td>2.41%</td>
</tr>
<tr>
<td>Public Education</td>
<td>866,431.8</td>
<td>6.10%</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING BUDGET</strong></td>
<td><strong>2,560,966.8</strong></td>
<td><strong>3.97%</strong></td>
</tr>
</tbody>
</table>

* Adjusted for salary, pension, health insurance
** Adjusted for Statewide technology issues
*** Adjusted for debt service
**** Adjusted for Medicaid State
Governor’s Fiscal Year 2005
Recommended Budget Highlights

Major “Door Opener” items:
- Salary Policy - $30.0 million
- Employee Health - $17.0 million
- Public Ed/DTCC Steps - $5.1 million
- Pension - $11.4 million
- Debt Service - $20.8 million
- Public Ed Enrollment - $6.6 million
- Medicaid - $24.9 million
- Women’s Treatment Facility - $3.0 million
Governor’s Fiscal Year 2005
Recommended Budget Highlights

Driving Down Mandated Costs

- Employee Health Costs – Prescription Drug Increase FY 2003:
  - National  18.5%
  - Delaware  7.2%
- FY 2005 Continue our success through:
  - Enhanced contract management
  - Innovative Pharmacy programs
  - Disease management and wellness promotion
Governor’s Fiscal Year 2005
Recommended Budget Highlights

Improving Public Education

- Full Day Kindergarten Implementation Fund - $1.0 million (Fed Fiscal Relief)
- Reading Resource Teachers - $3.9 million (Operating Budget)
- Capital projects in Appoquinimink, Brandywine, Caesar Rodney, Cape Henlopen, Christina, Indian River, NCC Vo-Tech, Polytech and Red Clay School Districts - $119.3 million (Capital Budget)
- Classroom textbooks and technology - $9.0 million (Fed Fiscal Relief)
- Eliminate waiting list in Adult Education/Work Force Training - $300.0 (Operating Budget)
- Delaware Teaching Corps - $50.0 (Operating Budget)
Governor’s Fiscal Year 2005 Recommended Budget Highlights

Promoting Health, Safety and Self-Sufficiency

- Fighting Cancer - $10.0 million (Fed Fiscal Relief)
- Housing Development Fund Supplement - $6.0 million (Fed Fiscal Relief)
- Expansion of Federally Qualified Health Centers (FQHC) - $1.0 million (Fed Fiscal Relief)
- Developmental Disabilities placements - $1.1 million (Operating Budget)
- Service provider partner inflation - $3.4 million (Operating Budget)
- Community Based Treatment Programs - $500.0 (Operating Budget)
- Veterans Home - $2.6 million (Capital Budget)
- Correctional Officer Task Force - $1.0 million (Operating Budget)
- Capitol Police Task Force - $100.0 (Operating Budget)
Governor’s Fiscal Year 2005 Recommended Budget Highlights

Improving our Environment

- Green Infrastructure - $22.1 million (Capital Budget)
- Water Supply/Flood Mitigation - $15.0 million (Capital Budget)
- Conservation Cost-Share - $2.3 million (Capital Budget)
- Clean Water Revolving Fund - $1.3 million (Capital Budget)
- Dams/Water Control Structures - $1.0 million (Capital Budget)
- Beach Preservation - $1.0 million (Capital Budget)
Governor’s Fiscal Year 2005 Recommended Budget Highlights

Creating and Retaining High Quality Jobs

New Economy Initiative $46.0 million ($30.5 million state & $15.5 million match)

- Delaware Competitiveness Fund - $12.5 million (Capital Budget)
- Clean Energy Research - $200.0 (Capital Budget)
- Clean Energy Manufacturing - $800.0 (Capital Budget)
- EPSCoR- $1.5 million (Capital Budget)
- Entrepreneurial Seed Funds - $2.5 million (Capital Budget)
- Venture Capital Funds - $3.0 million (Capital Budget)
- Strategic Fund - $10.0 million (Capital Budget)

Additional Economic Development Initiatives

- Riverfront Development Corporation - $9.0 million (Capital Budget)
- Diamond State Port Corporation - $15.0 million (Capital Budget)
Governor’s Fiscal Year 2005
Recommended Budget Highlights

Re-engineer Government Programs

- Department of Technology and Information
- DELJIS
- Department of Natural Resources/Environmental Control
- Delaware Economic Development Office
Federal Fiscal Relief Funds
$50.0 million

- Innovative Technology Fund - $19.0 million
- Cancer Council Recommendations - $10.0 million
- Public Education Textbooks and Technology - $9.0 million
- Housing Development Fund - $6.0 million
- State Park Water Quality Initiative - $3.0 million
- Full Day Kindergarten Implementation Fund - $1.0 million
- Federally Qualified Health Centers - $1.0 million
- Advanced Planning Fund - $1.0 million
Governor’s Recommended Fiscal Year 2005 Operating Budget

Budget Dollar General Fund Appropriations

- Public Education: 33.8¢
- All Others *: 14.7¢
- Services for Children, Youth, and Their Families: 3.8¢
- Safety/Homeland Security: 3.6¢
- Health and Social Services: 25.6¢
- Correction: 7.6¢
- Higher Education: 8.0¢
- Judicial: 2.7¢

* Includes One-Time Items
## Governor’s FY 2005 Recommended Capital Budget

### Improving Education
- **Public Libraries**: $3,586,700
- **Public Education - Construction/Renovation**: $119,290,900
- **Higher Education**: $19,000,000

### Protecting Delaware's Environment
- **Flood Mitigation/Water Supply**: $15,000,000
- **Green Infrastructure/Farmland Preservation**: $31,000,000
- **Conservation Cost Share Program**: $2,345,000
- **Beach Preservation**: $1,000,000
- **Water Pollution Control/Wastewater**: $11,000,000
- **Dams/Water Control Structures**: $1,000,000

### Economic Development and Job Creation
- **New Economy Initiative**: $30,500,000
- **Riverfront Development Corporation**: $9,000,000
- **Diamond State Port Corporation**: $15,000,000

### Investments in State Infrastructure
- **Department of Transportation**: $273,736,800
- **Veterans Home**: $2,570,000
- **Kent County Courthouse Facilities**: $10,398,600
- **New Health Facilities (DPC, Stockley)**: $7,272,500
- **New DNG STARC Headquarters**: $2,100,000
- **Doxsee Site Improvements**: $2,100,000
National Recognition for Delaware

- Tax Foundation: 3rd lowest tax burden
- USA Today: Top 3 states for Financial stewardship
- Beacon Hill Institute: #1 for Competitiveness
- Development Report Card: “A” rating for Performance and Development Capacity
- Governing Magazine: Rated Delaware as the top state for having a fair, adequate and well-run revenue system
Summary

- Governor Minner has stayed true to the financial principles that have served Delaware well and have maintained our Triple – A bond rating.

- A cautiously optimistic revenue outlook combined with continued fiscal discipline has allowed the Governor to make targeted investments in:
  - Improving Public Education
  - Creating and Retaining High Quality Jobs
  - Improving the Environment
  - Fighting Cancer

- For FY 2005, the Governor is recommending a sustainable financial plan – 3.97% operating budget growth.

- A “New Era of Opportunity” can be realized if we stay the course.
End of Presentation