

FINANCIAL OVERVIEW

RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2005 Recommended General Fund operating budget is \$2,561.0 million. In addition, the Governor has set aside \$38.5 million for Grants-in-Aid, \$180.0 million in dedicated cash to the Bond and Capital Improvements Program, and \$20.0 million to debt reduction. Total recommended Fiscal Year 2005 General Fund appropriations are \$2,799.5 million. Total appropriations represent 98 percent of projected net Fiscal Year 2005 revenue plus carryover funds.

The Governor's Fiscal Year 2005 Recommended Bond and Capital Improvements Act totals \$592.7 million. Of this amount, \$319.0 million is recommended for state capital projects and \$273.7 million is recommended for transportation projects. Of the \$319.0 million, \$135.8 million is General Obligation Bond Authorization and \$183.2 million is recommended in other General Fund Revenue, reversions, reprogramming, and miscellaneous revenue.

Fiscal Year 2005 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 15, 2003. The Governor has recommended adjustments to these figures that decrease the DEFAC revenue estimates by \$0.5 million in Fiscal Year 2004 and \$25.8 million in Fiscal Year 2005. These recommended adjustments are as follows:

- ◆ An increase of \$1.5 million in Abandoned Property for Fiscal Year 2005 due to increased audit activities.
- ◆ An increase of \$0.5 million in Other Revenue which is due to switch funding an equivalent amount of victim's services from Appropriated Special Funds to General Funds and adjusting the cap on the Victim's Compensation Fund accordingly.
- ◆ A \$0.5 million decrease in Lottery proceeds for Fiscal Year 2004 and Fiscal Year 2005 to be dedicated toward additional resources for the Delaware Standardbred Breeder's Fund.
- ◆ A \$27.3 million decrease in Hospital Board and Treatment Sales. This adjustment is due to a

change in the billing procedures for the state match for Medicaid eligible services provided in State operated institutions. An equivalent decrease in the Fiscal Year 2005 Recommended Budget will offset this revenue adjustment.

In addition, the Governor has recommended that the Fiscal Year 2004 reversion estimate be decreased by \$25.5 million. At the December 2003 meeting, DEFAC adopted a reversion estimate of \$36.5 million. This estimate includes \$25.5 million in surplus due to the temporary change in the Medicaid matching rate for the period April 1, 2003 – June 30, 2004. The Governor recommends these funds be continued into ensuing fiscal years and applied to the Medicaid program.

DEFAC REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 2004 of \$2,618.6 million and \$2,742.6 million for Fiscal Year 2005. 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 \$743.7 million for Fiscal Year 2004 and \$793.7 million for Fiscal Year 2005.
- ◆ **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 \$505.3 million for Fiscal Year 2004 and \$506.2 million for Fiscal Year 2005.
- ◆ **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 \$157.5 million for Fiscal Year 2004 and \$167.0 million for Fiscal Year 2005.
- ◆ **Lottery** - This category includes video lottery operations as well as traditional lottery sales. DEFAC estimates are \$223.6 million for Fiscal Year 2004 and \$232.1 million for Fiscal Year 2005.

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- ◆ **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 \$66.9 million for Fiscal Year 2004 and \$93.4 million for Fiscal Year 2005.
- ◆ **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 \$136.1 million for Fiscal Year 2004 and \$146.2 million for Fiscal Year 2005.