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# **FISCAL YEAR 2006**

## **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. Statewide financial schedules appear in the Appendix.

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

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 Fiscal Year 2006 Recommended General Fund operating budget is \$2,744.2 million. In addition, the Governor has set aside \$41.3 million for Grants-in-Aid, and \$109.0 million in dedicated cash to the Bond and Capital Improvements Program. Total recommended Fiscal Year 2006 General Fund appropriations are \$2,894.4 million. Total appropriations represent 98 percent of projected net Fiscal Year 2006 revenue plus carryover funds.

The Governor's Fiscal Year 2006 Recommended Bond and Capital Improvements Act totals \$631.1 million. Of this amount, \$297.8 million is recommended for state capital projects and \$333.3 million is recommended for transportation projects. Of the \$297.8 million, \$140.5 million is General Obligation Bond Authorization and \$157.3 million is recommended in other General Fund Revenue, reversions, reprogramming, and miscellaneous revenue.

Fiscal Year 2006 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 13, 2004. The Governor has recommended adjustments to these figures that decrease the DEFAC estimates by \$72.0 million in Fiscal Year 2006. These recommended adjustments are as follows:

- ◆ A decrease of \$38.5 million in Abandoned Property revenue for Fiscal Year 2006 due to the creation of the Livable Delaware Infrastructure Fund. This fund would cap the amount of Abandoned Property revenue deposited to the General Fund at \$246.5 million beginning in Fiscal Year 2006. Receipts in excess of that amount would be dedicated to the Livable Delaware Infrastructure Fund.

For Fiscal Year 2006, the Governor recommends the projected deposits to this fund be used for environmental and infrastructure projects within the Fiscal Year 2006 Bond and Capital Improvements Act.

- ◆ A \$33.5 million decrease in Other Revenue. This adjustment is due to a change in the accounting for the local school district share of debt service. An equivalent decrease in the Fiscal Year 2006 Recommended Budget will offset this revenue adjustment.

## DEFAC REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 2005 of \$2,755.6 million and \$2,882.6 million for Fiscal Year 2006. 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 \$827.6 million for Fiscal Year 2005 and \$877.8 million for Fiscal Year 2006.
- ◆ **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 \$457.0 million for Fiscal Year 2005 and \$476.0 million for Fiscal Year 2006.
- ◆ **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 \$177.5 million for Fiscal Year 2005 and \$188.2 million for Fiscal Year 2006.
- ◆ **Lottery** - This category includes video lottery operations as well as traditional lottery sales. DEFAC estimates are \$229.0 million for Fiscal Year 2005 and \$236.3 million for Fiscal Year 2006.
- ◆ **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 \$80.1 million for Fiscal Year 2005 and \$98.5 million for Fiscal Year 2006.
- ◆ **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 \$135.5 million for Fiscal Year 2005 and \$147.5 million for Fiscal Year 2006.
- ◆ **Abandoned Property** - Any debt obligation which has gone unclaimed or undelivered or security that has remained undelivered for five or more years after the date the owner should have received it or was entitled to claim it must be reported to the state as abandoned property. DEFAC estimates are \$290.0 million for Fiscal Year 2005 and \$285.0 million for Fiscal Year 2006.
- ◆ **Realty Transfer Tax** - The state imposes a tax of 2% of the fair market value of the property divided equally

## FINANCIAL OVERVIEW

between the grantor and the grantee. Local governments are permitted to levy a 1.5% tax. In cases in which the local levy exceeds 1.0%, the state rate decreases to 1.5%. DEFAC estimates are \$100.0 million for Fiscal Year 2005 and \$95.0 million for Fiscal Year 2006.

## GOVERNOR'S POLICY OVERVIEW

In spite of an improving economic outlook, spending pressures will once again require policy makers to make tough decisions when allocating scarce budgetary resources. Delaware, like other states across the country, is dealing with these spending pressures in such areas as health care, corrections, and public education. Pent up demand for spending increases after four years of austere budgets is apparent throughout state agency budget requests. Salary scales must be maintained in order to attract qualified personnel to state employment. Vital programs must be enhanced to provide much needed services to our citizenry.

The proposed Fiscal Year 2006 operating budget totals \$2,744.2 million. This budget maintains the principles of sound financial stewardship that have been the hallmark of the Minner-Carney administration. These principles include aligning ongoing revenues and ongoing expenditures, protecting core government services, and avoiding one-time fixes. Delaware has been recognized nationally for making tough choices to cut the budgets and live within our means while protecting core state government services. For Fiscal Year 2006, we must continue to exercise fiscal restraint.

This budget will continue to address the goals to which this Administration is firmly committed:

- ◆ 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; and
- ◆ A state government that is well-managed.

### SCHOOLS THAT SET HIGH STANDARDS AND PREPARE CHILDREN FOR COLLEGE, WORK AND LIFE

- ◆ A total of \$111.6 million is recommended for public education construction for Fiscal Year 2006. These recommendations invest \$30.8 million in school construction to continue the Minner-Carney Administration's goal of implementing full-day kindergarten statewide by 2008. These funds also support construction projects in the Indian River, Christina, Appoquinimink, Red Clay, Polytech, and Caesar Rodney school districts and at the Sussex Vo-Tech High School.

- ◆ The Governor recommends \$3,000.0 in Full Day K Contingency to maintain existing pilot programs and to begin the phase-in of statewide full-day Kindergarten, with the goal of having full-day Kindergarten available to all Delaware students by 2008. This phase-in of operational funds begins with those districts and charter schools that currently do not have construction needs and will be able to utilize this funding to provide full-day Kindergarten services to all of their students in the 2005-2006 school year.
- ◆ The Governor recommends \$1,311.7 in Math Specialists to begin the implementation of an initiative to provide one Math Specialist to all schools containing a grade configuration including any grade six through eight, to assist students who need additional support and instruction in standards-based mathematics with the intent that the students would be taught the skills they need to meet the Delaware mathematics standards as assessed by the DSTP. This level of funding will provide approximately 22 specialists in Fiscal Year 2006.
- ◆ The Governor recommends \$6,288.0 in General Contingency for projected unit growth of 100 Division I, II and III units in the 2005-2006 school year and \$2,248.8 in Division funding for 28 additional Division I and 125 Division II for actual unit growth in the 2004-2005 school year.
- ◆ The Governor recommends \$500.0 in Delaware Teacher Corps to provide 40 new service repayment loans to provide financial assistance to Delaware residents who want to become teachers in critical need areas in the state's public middle and high schools.
- ◆ The Governor recommends \$500.0 in Skills, Knowledge and Responsibilities Pay Supplements due to an increase in the number of approved professional development clusters. This appropriation will ensure sufficient funding to provide salary supplements to educators who successfully completed any approved professional development cluster.
- ◆ The Governor recommends \$2,578.7 in Public School Transportation to provide contingency funds for formula adjustments to be determined based upon recommendations from the Public School Transportation Committee. The Public School Transportation Committee consists of representatives from the Department of Education, Office of Management and Budget, Controller

# GOVERNOR'S POLICY OVERVIEW

General's Office, school district transportation supervisors and local school bus contractors.

- ◆ The Governor recommends \$250.0 in Formula Salaries to provide an annual stipend of \$662 to instructional paraprofessional staff who have received an associate degree, completed two years of college or have successfully passed a comprehensive testing mechanism to recognize the new requirements placed on such individuals by the federal No Child Left Behind Act.
- ◆ The Governor recommends \$300.0 in Adult Education/Work Force Training to eliminate the existing waiting list.

## A LIVABLE DELAWARE THAT STRENGTHENS COMMUNITIES AND PRESERVES QUALITY OF LIFE

- ◆ To continue our progress in achieving a Livable Delaware that strengthens communities and preserves our quality of life, the Governor recommends the creation of a Livable Delaware Infrastructure Fund. This account, created through surplus abandoned property revenues, will be dedicated to infrastructure and environmental projects for Fiscal Year 2006. In combination with other funds, a total of \$42.2 million is recommended for investments in advanced planning for facility location, farmland preservation, green infrastructure, beach preservation, drinking water, and wastewater treatment. In addition to protecting our natural resources and open spaces, these investments will help direct growth to areas where state, county and local governments have prepared for it.
- ◆ The Governor recommends \$500.0 for the Advanced Planning Fund to continue to support Livable Delaware goals through expenditures associated with advanced planning and site acquisition for proposed state facilities.

## HEALTH, SAFETY AND SELF-SUFFICIENCY FOR EVERY DELAWARE FAMILY

- ◆ The Governor recommends \$45,850.0 as an inflation and volume adjustment for the Medicaid program caused by increasing health care costs and a client base that is projected to reach over 140,000 persons during Fiscal Year 2006.
- ◆ The Governor recommends a volume adjustment of \$791.6 recommendation for the Delaware Healthy Children Program as well as \$475.0 for General

Assistance. Also recommended is \$412.3 for child care that raises the reimbursement rates for providers of preschool age care.

- ◆ The Governor recommends \$13.4 million in the Recommended Bond and Capital Improvements Act for the first year construction funding of the Stockley Medical Center.
- ◆ The Governor recommends \$1,292.1 to annualize community placements from Fiscal Year 2005 in Developmental Disabilities Services. The providers in this division are also receiving increases of \$621.8. Funding totaling \$3,315.0 is also recommended for special school graduates, special population placements and community residential placements.
- ◆ The Governor recommends \$350.0 for the Acquired Brain Injury waiver; \$200.0 for increases to the Nutrition Program; and \$170.0 for provider increases in Services for Aging and Adults with Physical Disabilities.
- ◆ The Governor is recommending increases of \$469.0 and 6.0 FTE State Troopers to enhance statewide homeland security.
- ◆ The Governor recommends \$19,000.0 in the Bond and Capital Improvements Act for enhancements to the state's 800MHz emergency radio communication system.
- ◆ The Governor recommends \$3,743.6 to fund a \$600 increase in Hazardous Duty A-1 effective July 1, 2004 and to annualize a 5 percent Selective Market Variation (SMV) increase to all Correctional Officer series employees effective January 1, 2005.
- ◆ The Governor further recommends \$1,700.0 in the Department of Correction to address the potential recommendations of the two current correctional officer task forces.
- ◆ The Governor recommends \$522.9 TFO for the Truck Weight Enforcement Program. This program is a joint venture with the Department of Safety and Homeland Security to enforce truck weight restrictions and ensure that the expected life of roads is not shortened by over weight trucks.

## ECONOMIC DEVELOPMENT THAT NURTURES AND MAINTAINS HIGH QUALITY JOBS

- ◆ The Governor recommends \$12.0 million in the Recommended Bond and Capital Improvements Act for the second year funding for New Economy

## GOVERNOR'S POLICY OVERVIEW

Initiative programs. The New Economy Initiative focuses on both the diversification of Delaware's economy and the fostering of a vibrant entrepreneurial culture in Delaware's business community. Significant progress has already been achieved utilizing the current year's appropriation. Second year funding will further spur new investments in existing facilities; support clean energy and fuel cell research; and invest in research and development.

- ◆ The Governor also recommends \$10.0 million to the Delaware Strategic Fund, \$10.0 million to the Diamond State Port Corporation and \$5.0 million to the Riverfront Development Corporation.

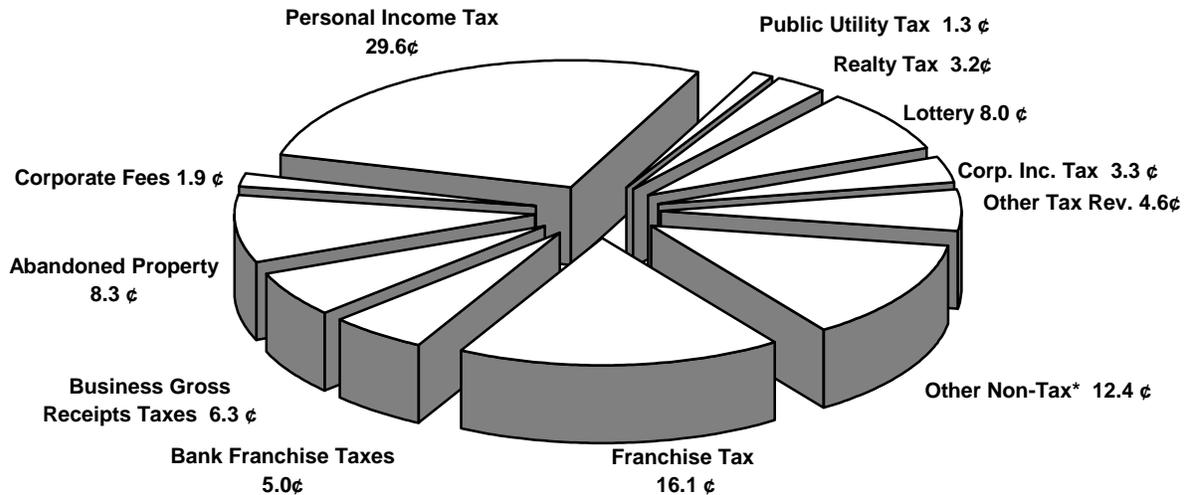
### **A STATE GOVERNMENT THAT IS WELL-MANAGED**

- ◆ The Governor recommends \$7,000.0 in the Bond and Capital Improvements Act for Technology Projects. These projects include the Judicial COTS system, improvements to the FACTS system in the Department of Services for Children Youth and their Families, and investments in the state's network infrastructure through the Department of Technology and Information.
- ◆ The Governor is recommending re-engineering efforts in various state agencies. First, the Governor recommends combining the Budget Office, State Personnel Office and units of the Department of Administrative services into a new Office of Management and Budget. Second, the Governor recommends a cost efficiency initiative in the Department of Health and Social Services to form a new Division of Medical Assistance and a new Division of Social Services and Aging.

# FINANCIAL SUMMARY

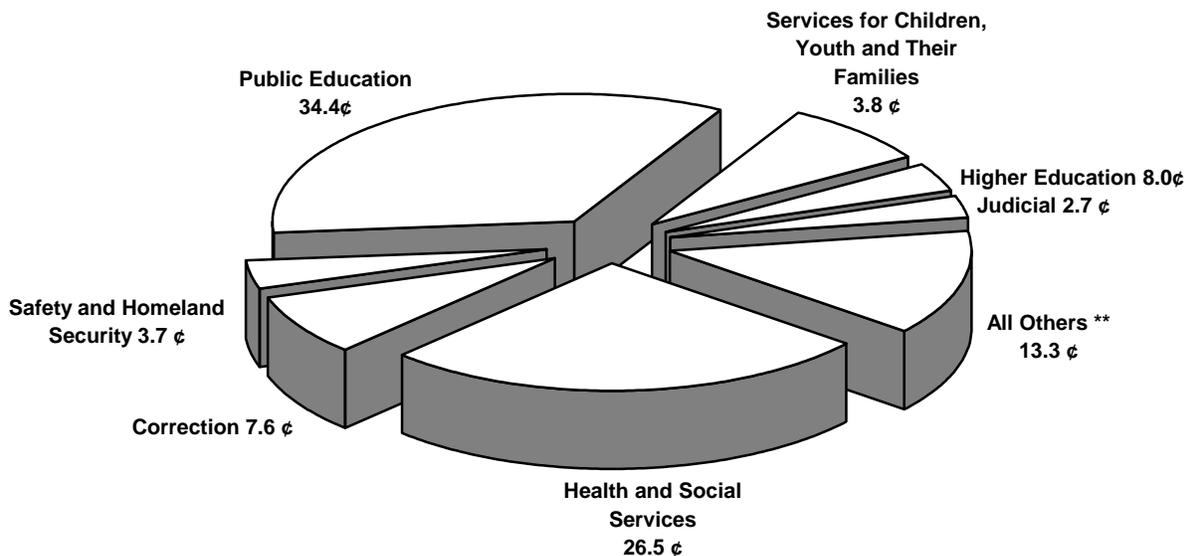
## BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2006

### 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 (DEFAC), at the December 13, 2004 meeting, adopted a Fiscal Year 2006 revenue estimate of \$2,882.6 million.

Revenue Categories	(\$ MILLIONS)		
	2004 Actual*	2005 Forecast	2006 Forecast
Personal Income Taxes	\$ 906.4	\$ 961.2	\$ 1,018.0
Corporation Income Taxes	106.3	125.1	133.5
Franchise Taxes	515.8	474.0	493.0
Business and Occupational Gross Receipts Taxes	161.5	177.5	188.2
Hospital Board and Treatment Sales	84.0	53.2	55.1
Dividends and Interest	9.0	11.0	14.0
Public Utility Taxes	34.1	36.5	37.8
Cigarette Taxes	75.7	83.0	84.7
Estate Taxes	13.4	10.6	1.7
Realty Transfer Taxes	88.6	100.0	95.0
Insurance Taxes	54.4	57.8	60.7
Abandoned Property	302.0	290.0	285.0
Corporate Fees	49.5	53.0	55.6
Bank Franchise Taxes	136.6	135.5	147.5
Lottery Sales	222.0	229.0	236.3
Limited Partnerships & Limited Liability Corporations	51.0	59.1	63.0
Uniform Commercial Code	13.1	13.5	13.9
Other Revenue by Department	103.2	107.3	112.1
<b>Total Receipts</b>	<b>\$ 2,926.7</b>	<b>\$ 2,977.3</b>	<b>\$ 3,095.1</b>
<b>LESS: Revenue Refunds</b>	<b>(191.0)</b>	<b>(221.7)</b>	<b>(212.5)</b>
<b>SUBTOTAL</b>	<b>\$ 2,735.7</b>	<b>\$ 2,755.6</b>	<b>\$ 2,882.6</b>
<b>PLUS: Abandoned Property</b>			<b>(38.5)</b>
<b>Other Revenue by Department</b>			<b>(33.5)</b>
<b>TOTAL</b>	<b>\$ 2,735.7</b>	<b>\$ 2,755.6</b>	<b>\$ 2,810.6</b>

\* Amounts do not total due to rounding.

# FINANCIAL SUMMARY

## GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	<b>FISCAL YEAR 2005</b>	<b>FISCAL YEAR 2006 RECOMMENDED</b>
Legislative	\$ 12,747.3	\$ 13,211.3
Judicial	68,865.3	73,474.0
Executive	110,412.9 *	149,725.4 * #
Technology and Information	31,965.2	33,835.7
Other Elective	63,599.0	35,238.6
Legal	31,261.8	33,757.3
State	15,540.9	16,999.4 #
Finance	17,951.4	18,490.4
Administrative Services	44,158.1	- #
Health and Social Services	662,039.4	728,738.2
Children, Youth and Their Families	97,536.5	104,866.9
Correction	194,591.8	208,969.1
Natural Resources and Environmental Control	36,350.3	37,383.9
Safety and Homeland Security	91,170.1	101,481.8
Labor	6,605.4	6,492.7
Agriculture	6,726.8	7,019.7
Elections	3,447.1	3,574.5
Fire	3,998.2	4,138.4
National Guard	3,650.5	3,872.1
Exceptional Citizens	119.7	125.2
Higher Education	210,696.3	219,352.1
Public Education	886,973.7	943,414.1
<b>STATE TOTAL</b>	<b>\$ 2,600,407.7</b>	<b>\$ 2,744,161.2</b>

\* Includes One-Time Items to be allocated statewide.

# Reflects the restructuring of the State Personnel Office, the Budget Office and units of the Department of Administrative Services into the Office of Management and Budget; and the transfer of units of the Department of Administrative Services to the Department of State.

## FINANCIAL CHARTS

### FISCAL OVERVIEW (\$ Million)

	Fiscal Year 2004 Actual*	Fiscal Year 2005 Estimated	Fiscal Year 2006 Projected
Revenue	\$ 2,735.7	\$ 2,755.6	\$ 2,810.6
Appropriations			
Budget	2,445.1	2,600.4	2,744.2
Grants	38.4	40.0	41.3
Supplementals			
-enacted	166.9	235.0	
-estimated			109.0
Total Appropriations	2,650.4	2,875.4	2,894.4
Continuing and Encumbered			
Appropriations (prior year)	173.3	240.2	287.0
Total	2,823.7	3,115.5	3,181.4
Less: Continuing & Encumbered			
Appropriations (current year)	(240.2)	(287.0)	(240.0)
Reversions	(29.8)	(5.0)	(10.0)
Total Ordinary Expenditures	2,553.7	2,823.5	2,931.4
Balances:			
Operating Balance	181.9	(67.9)	(120.8)
Prior Year Cash Balance	464.0	646.0	578.1
Cumulative Cash Balance	646.0	578.1	457.3
Less: Continuing & Encumbered			
Appropriations (current year)	(240.2)	(287.0)	(240.0)
Reserve	(136.5)	(148.2)	(151.2)
Unencumbered Cash Balance	269.3	142.9	66.1
Appropriation Limit			
Cumulative Cash Balance (prior year)	464.0	646.0	578.1
Less: Continuing & Encumbered			
Appropriations (current year)	(173.3)	(240.2)	(287.0)
Reserve (prior year)	(128.9)	(136.5)	(148.2)
Unencumbered Cash Balance	161.8	269.3	142.9
+Net Fiscal Year Revenue	2,735.7	2,755.6	2,810.6
Total (100% Limit)	2,897.5	3,024.9	2,953.5
X 98% Limit	0.98	0.98	0.98
<b>APPROPRIATION LIMIT</b>	<b>\$ 2,839.6</b>	<b>\$ 2,964.4</b>	<b>\$ 2,894.4</b>

Figures represent DEFAC revenue and expenditure estimates as of the December 13, 2004 meeting, plus Governor's Recommended Revenue adjustments.

\*Amounts do not total due to rounding.

## FINANCIAL CHARTS

### BOND AND CAPITAL IMPROVEMENTS ACT ENACTED AND RECOMMENDED FUNDING SOURCES (\$ Thousand)

SOURCE	Enacted FY 2004	Enacted FY 2005	Governor's Recommended FY 2006
<b>STATE CAPITAL PROJECTS (NON-TRANSPORTATION)</b>			
General Obligation Bonds	\$ 125,700.0	\$ 138,255.0	\$ 140,530.0
Deauthorization of IRBs	180.0	-	-
Reversions and Reprogramming	40.0	1,465.0	9,818.3
Bond Sale Interest	-	1,000.0	-
Venture Capital Funds	-	2,700.0	-
Twenty-First Century Fund	1,000.0	500.0	-
Livable Delaware Infrastructure Fund	-	-	38,500.0
General Funds	142,006.3	234,931.3	109,000.0
<b>Sub-Total (Non-Transportation):</b>	<b>\$ 268,926.3</b>	<b>\$ 378,871.3</b>	<b>\$ 297,848.3</b>
<b>TRANSPORTATION PROJECTS</b>			
Transportation Trust Fund	\$ 307,687.0	\$ 379,010.6	333,274.1
Transportation Trust Fund - Reauthorization	-	14,600.0	-
<b>Sub-Total (Transportation):</b>	<b>\$ 307,687.0</b>	<b>\$ 393,610.6</b>	<b>\$ 333,274.1</b>
<b>GRAND TOTAL:</b>	<b>\$ 576,613.3</b>	<b>\$ 772,481.9</b>	<b>\$ 631,122.4</b>