Office of the Governor

Policy and Financial Overview

Fiscal Year 2007
Governor Ruth Ann Minner
Governor Minner’s Vision for Delaware

2005 – “We plant seeds that one day will grow...knowing that they hold future promise.”

2006 – “…nurturing those seeds…putting our time, effort and resources into ensuring that they will grow and thrive to create a strong and healthy climate for our schools, our health, our environment, and our economy.”

- Schools that set high standards and prepare children for college, work and life
- Health, safety and self-sufficiency for every Delaware family
- Economic development that nurtures and maintains high quality jobs
- A Livable Delaware that strengthens communities and preserves quality of life
- A state government that is well-managed
Governor’s Financial Principles

- Preserving core state government services
- Building a sustainable financial plan
- Bolstering capital investments with pay-go funding
- Aggressive cost containment
- Addressing future liabilities
- Maintaining reserves
Budgeting in Uncertain Times

Delaware’s economic forecast is solid...however the Governor has recommended a responsible approach to the financial plan due to:

- Increasing cost of core government services
- Federal budget cuts and cost shift to state
- Corporate restructurings
- Impact of Pennsylvania slots
- Cost of energy and raw materials
- Full-year effect of tax cuts
Budget Challenge

**Starting Point - Operating**

Example: 5.0% Budget Growth $ 141.8
Total Demand over Fiscal Year 2006 294.5

**Difference** $ (152.7)

**Starting Point - Capital**

G.O. Bond Limit $ 157.6
Total Non-Transportation Requests 610.0

**Difference** $ (452.4)
Governor’s Recommended FY 2007 Financial Package

- General Fund Operating Budget .......... $3,002.8 M
  - GF Operating Budget Growth 5.69%

- Bond and Capital Improvement Act ......... $402.1 M
  - State Capital Projects ................. $285.6 M
    - G.O. Bonds ........ $157.6 M
    - Cash, Other ........ $128.0 M
  - Transportation Authorizations* .... $116.5 M

- Grants-In-Aid ............................................. $55.4 M

*Total capital program (all sources) for the Department of Transportation is recommended at $363.7 million.
The Fiscal Situation is Balanced Through 2008....
Highlights of Governor’s Financial Plan

Maintaining financial strength through a responsible budget plan that addresses core government services, implements the Governor’s vision and provides a cushion to address pending issues.

- Limit operating budget growth
- Appropriate less than 98 percent limit
- Fund long-term liabilities (Health Insurance/Pension/Other Post Employment Benefits)
- Address critical issues in January
  - Low income home energy assistance programs
  - Energy shortfalls in public schools
  - Market pressure funds for school construction
  - Video Lottery Competitiveness Initiative
Improving Schools

- Full-day Kindergarten - $6.7 million (Operating), continued support in the capital budget
- Math specialists (10) in middle schools - $632,400
- SEED Scholarship $600,000
- Public school construction and renovation - $105.8 million
- Public education unit growth - $10.6 million
- Public school transportation - $8.3 million
Health, Safety and Self-Sufficiency for Every Delaware Family

- Cancer Council recommendations - $12.5 million
- Emergency Communication System (800 MHz) - $13.7 million
- Veterans home operations - $4.5 million
- Infant Mortality Task Force - $2.0 million
- Nurse expansion phase II - $1.1 million
- State trooper expansion Yr 2 - $676,000
- AFIS - $2.5 million
- Local Law Enforcement Technology - $1.2 million
- Race/DNA analysis - $100,000
Creating and Retaining High Quality Jobs

- New Economy Initiative Year 3 - $10.0 million
- Strategic Fund - $10.0 million
- Fraunhofer Vaccine Development - $1.0 million
- Diamond State Port Corporation - $7.0 million
- Riverfront Development Corporation - $5.0 million
Improving the Environment

- Continued support through dedicated revenue to:
  - Farmland preservation - $10.0 million
  - Open Space - $10.0 million

- Conservation Cost-Share $3.2 million
Major “Door Opener” Items

- Medicaid - $59.4 million
- Employee Health - $10.0 million
- Public Ed/DTCC Steps - $6.2 million
- Pension - $5.2 million
- OPEB - $5.1 million
- Energy - $3.1 million
Delaware FY 2007 Revenue Forecast

Revenue Dollar
Sources of Funds*

*Net of Refunds
**Includes Prior Year Unencumbered Cash
Governor’s Recommended FY 2007 Operating Budget

- Public Education: 33.7¢
- All Others *: 12.9¢
- Services for Children, Youth, and Their Families: 3.8¢
- Safety/HomeLand Security: 3.7¢
- Health and Social Services: 28.0¢
- Higher Education: 7.6¢
- Judicial: 2.8¢
- Correction: 7.5¢

*Includes One-Time Items

Budget Dollar
General Fund Appropriations
<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2007</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>$14,117.6</td>
<td>0.00%</td>
</tr>
<tr>
<td>Judicial</td>
<td>83,111.9</td>
<td>2.70%</td>
</tr>
<tr>
<td>Executive</td>
<td>137,193.2</td>
<td>-0.01%</td>
</tr>
<tr>
<td>Technology &amp; Information</td>
<td>36,242.4</td>
<td>3.30%</td>
</tr>
<tr>
<td>Other Elective</td>
<td>35,345.7</td>
<td>2.95%</td>
</tr>
<tr>
<td>Legal</td>
<td>39,316.8</td>
<td>4.03%</td>
</tr>
<tr>
<td>State</td>
<td>23,220.3</td>
<td>25.10% **</td>
</tr>
<tr>
<td>Finance</td>
<td>19,993.6</td>
<td>1.60%</td>
</tr>
<tr>
<td>Health &amp; Social Services</td>
<td>839,626.5</td>
<td>10.48%</td>
</tr>
<tr>
<td>Children, Youth &amp; Their Families</td>
<td>115,464.6</td>
<td>4.07%</td>
</tr>
<tr>
<td>Correction</td>
<td>226,191.6</td>
<td>2.42%</td>
</tr>
</tbody>
</table>

* As adjusted by FY 2006 personnel costs  ** Includes appropriations for state veterans home.
## Fiscal Year 2007 General Fund Operating Budget

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2007</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources</td>
<td>39,142.4</td>
<td>-1.76%</td>
</tr>
<tr>
<td>Safety &amp; Homeland Security</td>
<td>112,568.0</td>
<td>2.92%</td>
</tr>
<tr>
<td>Transportation</td>
<td>14,000.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Labor</td>
<td>6,981.7</td>
<td>0.96%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7,716.5</td>
<td>1.11%</td>
</tr>
<tr>
<td>Elections</td>
<td>3,846.5</td>
<td>-0.33%</td>
</tr>
<tr>
<td>Fire Prevention Commission</td>
<td>4,516.0</td>
<td>2.05%</td>
</tr>
<tr>
<td>National Guard</td>
<td>4,273.2</td>
<td>3.55%</td>
</tr>
<tr>
<td>Exceptional Citizens</td>
<td>161.8</td>
<td>0.33%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>228,332.1</td>
<td>2.95%</td>
</tr>
<tr>
<td>Public Education</td>
<td>1,011,461.9</td>
<td>4.46%</td>
</tr>
<tr>
<td><strong>Total Operating Budget</strong></td>
<td><strong>$3,002,824.3</strong></td>
<td><strong>5.69%</strong></td>
</tr>
</tbody>
</table>

* As adjusted by FY 2006 personnel costs  
* * As adjusted by FY 2006 energy supplemental
Transportation Challenge

- Inelastic revenue and increasing operating costs
- Cost of highway materials and construction (chart)
- Increased transportation demand (chart)
- Minimal increases in revenue in last 15 years
- Authorization of projects far outpacing deliverable expenditures (pent up demand)
Transportation Challenge - Cost of highway materials and construction

<table>
<thead>
<tr>
<th>Item</th>
<th>2000</th>
<th>2005</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Operator</td>
<td>21.35/hr</td>
<td>23.95/hr</td>
<td>12.2%</td>
</tr>
<tr>
<td>Concrete</td>
<td>80.50 cu/yd</td>
<td>92.50 cu/yd</td>
<td>14.9%</td>
</tr>
<tr>
<td>Hot Mix</td>
<td>35.07/ton</td>
<td>44.90/ton</td>
<td>28.0%</td>
</tr>
<tr>
<td>Fuel</td>
<td>$142/tank</td>
<td>$221/tank</td>
<td>55.6%</td>
</tr>
<tr>
<td>Steel</td>
<td>$0.85/lb</td>
<td>$1.70/lb</td>
<td>100%</td>
</tr>
<tr>
<td>Land</td>
<td>$350k/acre</td>
<td>$405k/acre</td>
<td>15.7%</td>
</tr>
</tbody>
</table>
## Transportation Challenge - Increased transportation demand

<table>
<thead>
<tr>
<th>Item</th>
<th>2000</th>
<th>2004</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>783,000</td>
<td>838,913</td>
<td>7.1%</td>
</tr>
<tr>
<td>Vehicle Registrations</td>
<td>630,440</td>
<td>808,942</td>
<td>28.3%</td>
</tr>
<tr>
<td>Licensed Drivers</td>
<td>484,801</td>
<td>604,119</td>
<td>24.6%</td>
</tr>
<tr>
<td>Transit Services Hours</td>
<td>390,559</td>
<td>422,250</td>
<td>8.1%</td>
</tr>
<tr>
<td>Transit Service Miles</td>
<td>5,863,766</td>
<td>6,182,811</td>
<td>5.4%</td>
</tr>
</tbody>
</table>
Comprehensive Transportation Solution

Multi-Dimensional Strategy

Short-term (6 months)
- Executive Order
- Continue cost shift to GF
- Reauthorize TTF Plan
- Cash

Mid-term (6-12 months)
- Pilot P3/Concession on Rt 301
- Infuse revenues based on revised TTF Plan
What others are saying…

- The National Center for Policy Analysis (NCPA) rates Delaware at the top of the index rating Economic Freedom.
- Delaware was rated as the best state for locating a biotechnology business - Battelle Memorial Institute.
- The Political Economy Research Institute (PERI) rated Delaware as the best in terms of work environment.
- Inc.com, rated:
  - the city of Dover as having the 12th fastest, most sustained growth in the country.
  - Wilmington was rated 34/119 as best places to locate a small business.
“Delaware’s premier credit standing centers on its considerable economic and financial resources, the latter of which is buttressed by institutionalized protections” – Fitch

“The (Aaa) rating reflects a state economy that held up better than that of many other states, (and) tightly managed finances...” – Moody’s

“The stable outlook reflects the expectation that the state's prudent financial and debt management practices will lead to continued sound financial operations.” – Standard and Poor’s

Delaware received a B+ for overall management from the Governing Performance Project.