
FISCAL YEAR 2007

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 2007 Recommended General Fund operating budget is \$3,002.8 million. In addition, the Governor has set aside \$55.4 million for Grants-in-Aid, and \$118.0 million in dedicated cash to the Bond and Capital Improvements Program. Total recommended Fiscal Year 2007 General Fund appropriations are \$3,176.2 million. Total appropriations represent 97.6 percent of projected net Fiscal Year 2007 revenue plus carryover funds. This is below the constitutionally mandated limitation on appropriations of 98 percent of forecasted revenue plus carryover funds.

The Governor's Fiscal Year 2007 Recommended Bond and Capital Improvements Act totals \$402.1 million. Of this amount, \$285.6 million is recommended for state capital projects and \$116.5 million is recommended for transportation projects. Of the \$285.6 million, \$157.6 million is General Obligation Bond Authorization and \$128.0 million is recommended in other General Fund Revenue, reversions, reprogramming, and miscellaneous revenue.

Fiscal Year 2007 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 19, 2005. The Governor has recommended adjustments to these figures that increase the DEFAC estimates by \$2.3 million in Fiscal Year 2006 and \$12.0 million in Fiscal Year 2007. These recommended adjustments are as follows:

- ◆ A increase of \$2.3 million for Fiscal Year 2006 and \$11.4 million in Fiscal Year 2007 respectively in Lottery revenue for the Video Lottery Competitiveness Act of 2006. This legislation is intended to allow the Delaware video lottery industry to grow and prepare for the impending competition from Pennsylvania in 2007. The legislation authorizes additional hours and machines for the three Delaware Video Lottery venues.
- ◆ A \$0.6 million increase in Fiscal Year 2007 in Hospital Board and Treatment Sales. This adjustment reflects the projected federal Veterans Administration reimbursement for residents in the Delaware Veterans Home, expected to open in the second half of calendar year 2006.

DEFAC REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 2006 of \$3,048.6 million and \$3,140.4 million for Fiscal Year 2007. 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 \$961.6 million for Fiscal Year 2006 and \$1,023.5 million for Fiscal Year 2007.
- ◆ **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 \$506.3 million for Fiscal Year 2006 and \$527.3 million for Fiscal Year 2007.
- ◆ **Business and Occupational Gross Receipts Tax** - This tax is imposed on the gross receipts of most businesses with tax rates ranging from .077 percent to 1.54 percent, depending upon the category of the business activity. DEFAC estimates are \$172.7 million for Fiscal Year 2006 and \$153.7 million for Fiscal Year 2007. Collections are forecast to be less in Fiscal Year 2007 as compared to Fiscal Year 2006 due to the full year effects of reductions to the tax enacted in July 2005.
- ◆ **Lottery** - This category includes video lottery operations as well as traditional lottery sales. DEFAC estimates are \$238.4 million for Fiscal Year 2006 and \$242.6 million for Fiscal Year 2007.
- ◆ **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 \$147.7 million for Fiscal Year 2006 and \$156.8 million for Fiscal Year 2007.
- ◆ **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 \$143.3 million for Fiscal Year 2006 and \$153.1 million for Fiscal Year 2007.
- ◆ **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 \$287.0 million for Fiscal Year 2006 and \$277.0 million for Fiscal Year 2007.

FINANCIAL OVERVIEW

◆ **Realty Transfer Tax** – The state imposes a tax of 2.0 percent of the fair market value of the property divided equally between the grantor and the grantee. Local governments are permitted to levy a 1.5 percent tax. In cases in which the local levy exceeds 1.0 percent, the state rate decreases to 1.5 percent. DEFAC estimates are \$122.6 million for Fiscal Year 2006 and \$112.6 million for Fiscal Year 2007.

GOVERNOR'S POLICY OVERVIEW

The Minner-Carney administration's financial stewardship has placed Delaware in a strong fiscal position entering Fiscal Year 2007. By applying effective financial principles, such as aligning on-going revenues and on-going expenditures, protecting core government services, and avoiding one-time fixes, Delaware has built a solid financial base. In numerous venues, Delaware has been recognized nationally for excellence in our financial institutions.

It will be absolutely critical to maintain this solid base in the face of several issues which Delaware policy makers must address within the state's fiscal plans. These issues include the rising costs of core government services, corporate restructurings and federal budget cuts and cost shifts to states. Though the baseline economic forecast is optimistic for the state, addressing these issues by enacting short sighted, quick fixes will only serve to weaken our solid financial base and reverse the progress made during the prior years of this administration.

The proposed Fiscal Year 2007 Operating Budget totals \$3,002.8 million. This budget, in combination with the Recommended Bond and Capital Improvements Act and recommended set aside for Grants-In-Aid, will total less than the constitutionally mandated 98 percent limit on appropriations. The Governor has prudently constrained agency budget growth while targeting additional funding to areas of highest operational or policy priority.

In addition, 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

- ◆ The Governor recommends \$105,806.9 for Public Education Construction Projects including continuing to implement full-day Kindergarten statewide by 2008. This funding will allow for the completion of the Red Clay referendum projects, and provide funding for projects in the Appoquinimink, Indian River, Smyrna, Lake Forest,

Colonial and Brandywine school districts. Funding is also recommended for the Poly Tech High School and for the Sussex Technical High School.

- ◆ The Governor recommends an increase of \$3,700.0 for Phase II of full-day Kindergarten implementation. The total recommended appropriation is \$6,700.0 and will provide full funding for full-day Kindergarten in eight school districts, seven charter schools and continue the funding of one pilot classroom in four school districts.
- ◆ The Governor recommends \$632.4 for an additional ten math specialists to continue to expand this initiative to schools with a grade configuration of any grades six through eight. This recommendation will allow for a total of 32 math specialists statewide who will provide additional instruction for students to learn the necessary skill sets to achieve the Delaware mathematics standards as assessed by the DSTP.
- ◆ The Governor recommends \$600.0 in SEED Scholarship to provide funding for scholarships awarded through the SEED program.
- ◆ The Governor recommends \$8,125.0 for projected unit growth of 125 Division I, II and III units in the 2006-2007 school year and \$2,436.2 in Division funding for 31 additional Division I and 24 Division II units for the 2005-2006 school year.
- ◆ The Governor recommends \$5,375.6 in Public School Transportation to address formula changes, and an additional \$2,000.0 for potential formula adjustments. Also recommended is one-time funding of \$966.8 to purchase 18 buses.
- ◆ The Governor recommends \$300.0 in Delaware Student Testing Program (DSTP) for the development and purchase of additional test items.
- ◆ The Governor recommends \$407.5 in Early Childhood Assistance to increase the per pupil amount to close the gap with the federal funding level.
- ◆ The Governor recommends \$382.5 in Student Discipline for five new district schools, four new charter schools and four schools with configuration changes.

A LIVABLE DELAWARE THAT STRENGTHENS COMMUNITIES AND PRESERVES QUALITY OF LIFE

- ◆ The Governor recommends continued support through dedicated revenue in the amount of

GOVERNOR'S POLICY OVERVIEW

\$10,000.0 for Farmland Preservation and \$10,000.0 for Open Space.

- ◆ The Governor recommends \$3,700.0 in the Bond and Capital Improvements Act to continue the Beach Preservation Program. These funds will be used for the cost-share of the Rehoboth/Dewey Beach, Bethany/South Bethany and Fenwick Island projects.
- ◆ The Governor recommends \$3,205.0 in the Bond and Capital Improvements Act for the Conservation Cost Share Program. This program assists landowners by providing funds for the design and installation of systems that protect water supplies and natural resources while minimizing the erosion of farmland and the pollution to wildlife habitat.

HEALTH, SAFETY AND SELF-SUFFICIENCY FOR EVERY DELAWARE FAMILY

- ◆ The Governor recommends \$59,354.0 for the Medicaid program to cover increasing health care costs and a client base that is projected to reach over 146,000 persons during Fiscal Year 2007. Client growth is also the basis for a \$736.5 recommendation for the Delaware Healthy Children Program in Medicaid and Medical Assistance.
- ◆ The Governor recommends \$12,525.0 (all funds) to cover the loss of Federal Fiscal Relief funding in Public Health and provide funding for a comprehensive list of cancer treatment initiatives as covered in the Cancer Council Recommendations.
- ◆ The Governor recommends \$2,000.0 for Infant Mortality Task Force Recommendations. This funding will include creating the Center for Excellence in Maternal and Child Health and Epidemiology within the Division of Public Health and implementing comprehensive case management services to pregnant women and their infants.
- ◆ The Governor recommends \$2,657.1 in Child Care for anticipated program growth in Social Services. Also recommended is \$1,166.7 to annualize the Child Care rate increases from Fiscal Year 2006.
- ◆ The Governor recommends \$2,829.5 to fund additional special population placements, community residential placements and special school graduates in Developmental Disabilities Services. Also recommended is \$400.0 for a new group home for individuals with special behaviors.
- ◆ The Governor recommends \$1,300.0 for the increasing costs of medications and \$564.4 for

Community Continuum of Care Program placements in Substance Abuse and Mental Health.

- ◆ The Governor recommends \$5,598.2 in the Bond and Capital Improvements Act for Critical Deferred Maintenance at the Delaware Psychiatric Hospital for electrical, plumbing and roofing repairs to the hospital infrastructure.
- ◆ The Governor recommends \$19,825.5 in the Bond and Capital Improvements Act for the completion of a new, 82,745 square foot Stockley Medical Center with a capacity of 45 beds.
- ◆ The Governor recommends \$13,700.0 in the Bond and Capital Improvements Act for enhancements to the state's 800 MHz emergency radio communication system.
- ◆ The Governor recommends \$676.0 and \$106.4 ASF and 6.0 FTE Troopers and 2.0 ASF FTE Troopers. This funding will annualize 16.0 FTE Troopers added during Fiscal Year 2006 and expand the complement of troopers by an additional eight, including increasing the number of troopers for Sussex County. This recommendation will also increase the authorized strength of the State Police to 655 troopers.
- ◆ The Governor recommends \$615.6 for technology enhancements to bring the entire State Police computer network to the next generation of computers and provide technology for statewide law enforcement agencies to meet federal security standards.
- ◆ The Governor recommends \$2,500.0 in the Bond and Capital Improvements Act for the Automated Fingerprint Identification System (AFIS). This funding will provide local law enforcement agencies with the latest fingerprint retrieval technology.

ECONOMIC DEVELOPMENT THAT NURTURES AND MAINTAINS HIGH QUALITY JOBS

- ◆ The Governor recommends \$10.0 million in the Bond and Capital Improvements Act for the third year funding for New Economy 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. Third year funding will further spur new investments in existing facilities; support clean energy and fuel cell research; and invest in research and development.

GOVERNOR'S POLICY OVERVIEW

- ◆ The Governor recommends \$1.0 million for the Fraunhofer Center for Molecular Biotechnology for vaccine development efforts. These funds represent the first year of a five year commitment and are projected to leverage significant private funding as well.
- ◆ The Governor recommends \$10.0 million to the Delaware Strategic Fund, \$7.0 million to the Diamond State Port Corporation and \$5.0 million to the Riverfront Development Corporation.

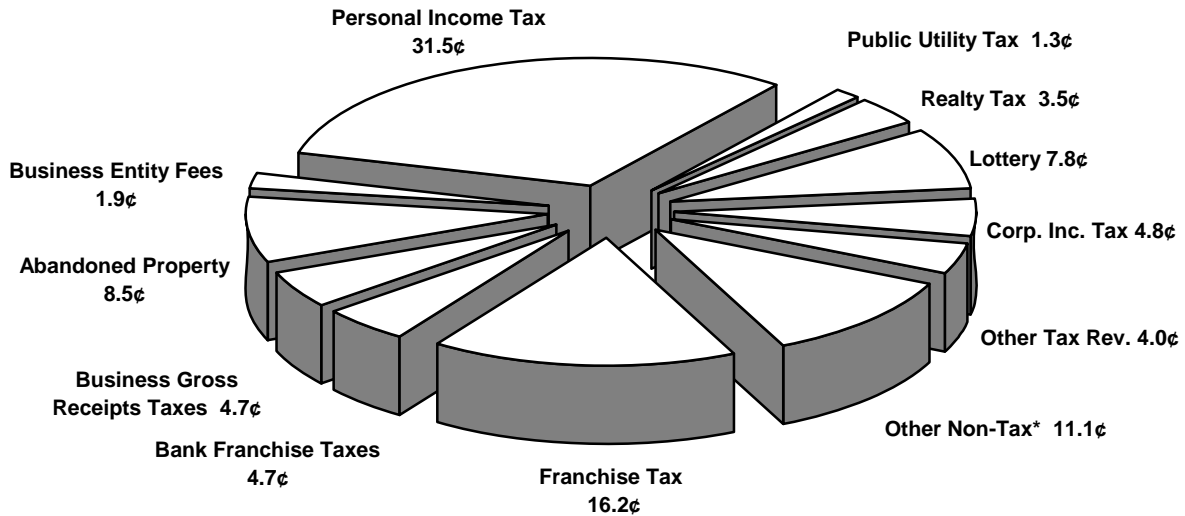
A STATE GOVERNMENT THAT IS WELL-MANAGED

- ◆ The Governor recommends \$15,100.0 in the Bond and Capital Improvements Act to continue the implementation of ERP Financials to replace the Delaware Financial Management System (DFMS) and the Department of Transportation's BACIS accounting system. The implementation of this system will provide one financial management system statewide.
- ◆ The Governor is recommending \$16,035.4 in the Bond and Capital Improvements Act for minor capital improvements, equipment purchases and maintenance and restoration of state facilities. These funds are intended to maintain state-owned facilities in a safe condition and improve the functionality of buildings, grounds and building systems.

FINANCIAL SUMMARY

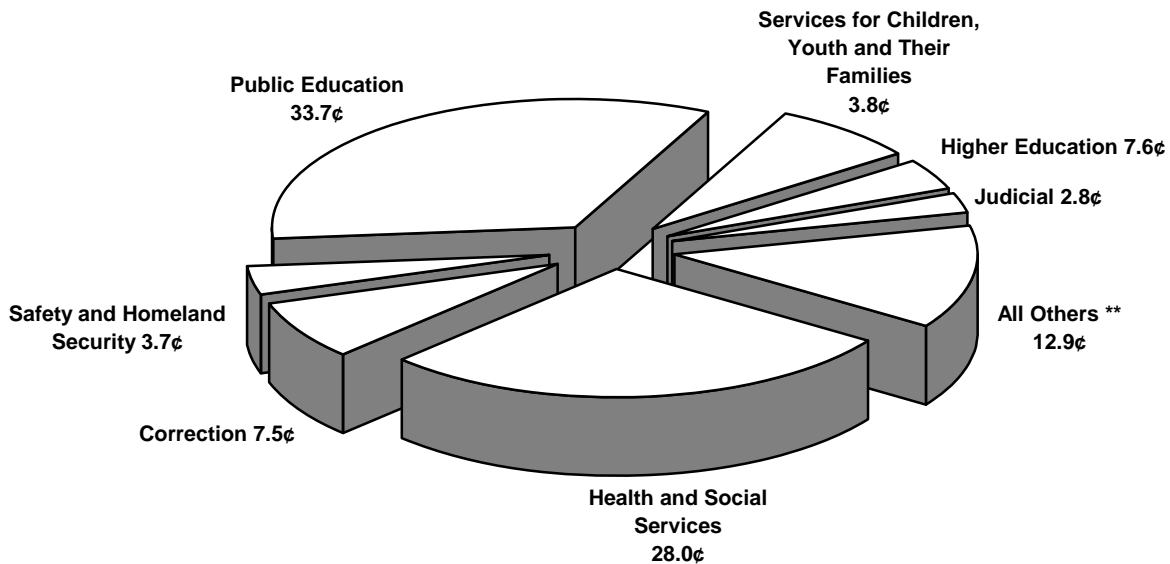
BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2007

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 19, 2005 meeting, adopted a Fiscal Year 2007 revenue estimate of \$3,140.4 million.

	(\$ MILLIONS)		
	2005 Actual	2006 Forecast	2007 Forecast
Revenue Categories			
Personal Income Taxes	\$ 1,015.6	\$ 1,102.2	\$ 1,176.2
Corporation Income Taxes	157.0	182.7	191.8
Franchise Taxes	508.1	523.3	544.3
Business and Occupational Gross Receipts Taxes	176.6	172.7	153.7
Hospital Board and Treatment Sales	54.5	56.4	59.1
Dividends and Interest	9.1	17.0	19.3
Public Utility Taxes	36.5	39.0	42.9
Cigarette Taxes	80.7	87.0	88.9
Estate Taxes	6.4	4.5	0.0
Realty Transfer Taxes	113.6	122.6	112.6
Insurance Taxes	57.0	60.8	63.9
Abandoned Property	264.9	287.0	277.0
Business Entity Fees	57.8	60.1	63.1
Bank Franchise Taxes	134.8	143.3	153.1
Lottery Sales	234.0	238.4	242.6
Limited Partnerships & Limited Liability Corporations	63.4	72.2	80.9
Uniform Commercial Code	13.8	13.8	10.2
Other Revenue by Department	<u>111.8</u>	<u>82.3</u>	<u>88.0</u>
Total Receipts	\$ 3,095.6	\$ 3,265.3	\$ 3,367.6
LESS: Revenue Refunds	<u>(217.9)</u>	<u>(216.8)</u>	<u>(227.2)</u>
SUBTOTAL	\$ 2,877.6 *	\$ 3,048.6	\$ 3,140.4
PLUS: Lottery Sales		2.3	11.4
Hospital Board and Treatment Sales			<u>0.6</u>
TOTAL	\$ 2,877.6	\$ 3,050.9	\$ 3,152.4

* Amounts do not total due to rounding.

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	FISCAL YEAR 2006	FISCAL YEAR 2007 RECOMMENDED
Legislative	\$ 13,455.8	\$ 14,117.6
Judicial	74,243.5	83,111.9
Executive	188,922.1 *	137,193.2 *
Technology and Information	33,832.1	36,242.4
Other Elective	34,061.5	35,345.7
Legal	34,950.9	39,316.8
State	18,143.2	23,220.3
Finance	18,659.6	19,993.6
Health and Social Services	748,082.8	839,626.5
Children, Youth and Their Families	106,552.8	115,464.6
Correction	210,630.5	226,191.6
Natural Resources and Environmental Control	38,061.2	39,142.4
Safety and Homeland Security	102,574.1	112,568.0
Transportation	-	14,000.0
Labor	6,787.7	6,981.7
Agriculture	7,242.1	7,716.5
Elections	3,683.2	3,846.5
Fire	4,199.6	4,516.0
National Guard	3,949.9	4,273.2
Exceptional Citizens	152.1	161.8
Higher Education	221,407.8	228,332.1
Public Education	966,448.4	1,011,461.9
STATE TOTAL	\$ 2,836,040.9	\$ 3,002,824.3

* Includes One-Time Items to be allocated statewide.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

	Fiscal Year 2005 Actual*	Fiscal Year 2006 Estimated	Fiscal Year 2007 Projected
Revenue	\$ 2,877.6	\$ 3,050.9	\$ 3,152.4
Appropriations:			
Budget	2,600.4	2,836.0	3,002.8
Grants	40.0	42.4	55.4
Supplementals			
-enacted	285.0	288.1	
-estimated		5.0	118.0
Total Appropriations	2,925.4	3,171.5	3,176.2
Continuing and Encumbered			
Appropriations (prior year)	240.2	327.8	224.0
Total	3,165.5	3,499.3	3,400.2
Less: Continuing & Encumbered			
Appropriations (current year)	(327.8)	(224.0)	(160.0)
Reversions	(15.4)	(10.0)	(10.0)
Total Ordinary Expenditures	2,822.3	3,265.3	3,230.2
Balances:			
Operating Balance	55.2	(214.4)	(77.8)
Prior Year Cash Balance	646.0	701.2	486.8
Cumulative Cash Balance	701.2	486.8	409.0
Less: Continuing & Encumbered			
Appropriations (current year)	(327.8)	(224.0)	(160.0)
Reserve	(148.2)	(161.1)	(169.0)
Unencumbered Cash Balance	225.2	101.7	80.0
Appropriation Limit			
Cumulative Cash Balance (prior year)	646.0	701.2	486.8
Less: Continuing & Encumbered			
Appropriations (prior year)	(240.2)	(327.8)	(224.0)
Reserve (prior year)	(136.5)	(148.2)	(161.1)
Unencumbered Cash Balance	269.3	225.2	101.7
+Net Fiscal Year Revenue	2,877.6	3,050.9	3,152.4
Total (100% Limit)	3,146.9	3,276.1	3,254.1
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	\$ 3,084.0	\$ 3,210.6	\$ 3,189.0

Figures represent DEFAC revenue and expenditure estimates as of the December 19, 2005 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 2005	Enacted FY 2006	Governor's Recommended FY 2007
STATE CAPITAL PROJECTS (NON-TRANSPORTATION)			
General Obligation Bonds	\$ 138,255.0	\$ 150,320.0	\$ 157,620.0
Reversions and Reprogramming	1,465.0	9,838.3	2,500.0
Bond Sale Interest	1,000.0	-	-
Bond Premium	-	-	7,472.2
Venture Capital Funds	2,700.0	-	-
Twenty-First Century Fund	500.0	-	-
General Funds	234,931.3	281,625.8	117,974.6
Sub-Total (Non-Transportation):	\$ 378,871.3	\$ 441,784.1	\$ 285,566.8
TRANSPORTATION PROJECTS			
Transportation Trust Fund	\$ 379,010.6	\$ 393,100.0	116,503.8
Transportation Trust Fund - Reauthorization	14,600.0	-	-
Sub-Total (Transportation):	\$ 393,610.6	\$ 393,100.0	\$ 116,503.8
GRAND TOTAL:	\$ 772,481.9	\$ 834,884.1	\$ 402,070.6