
FISCAL YEAR 2008

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 2008 Recommended General Fund operating budget is \$3,248.7 million. In addition, the Governor has set aside \$54.6 million for Grants-in-Aid and \$43.0 million in dedicated cash to the Bond and Capital Improvements Program. Total recommended Fiscal Year 2008 General Fund appropriations are \$3,346.3 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2008 revenue plus carryover funds which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2008 Recommended Bond and Capital Improvements Act totals \$554.8 million. Of this amount, \$224.6 million is recommended for state capital projects and \$330.2 million is recommended for transportation projects. Of the \$224.6 million supporting state projects, \$168.4 million is General Obligation Bond Authorization, \$43.0 million is General Fund cash, \$9.4 million is reversions and reprogramming of existing authorization and \$3.8 million is funds received as bond premiums from prior general obligation bond sales.

Fiscal Year 2008 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates of December 18, 2006. The Governor has recommended several revenue enhancement measures for Fiscal Year 2008 and Fiscal Year 2009.

The Governor has recommended a forty five cents per pack increase in the Cigarette Tax. This revenue increase will raise the tax per pack of cigarettes from fifty five cents per pack to one dollar per pack. For Fiscal Year 2008, this increase will generate \$42.0 million in revenue that will be dedicated to the Delaware Healthy Life Fund. The Delaware Healthy Life Fund will focus on the health needs of Delaware's most at-risk populations as well as improve the administration of a comprehensive system of health services.

The Governor has also addressed the structural deficit in the Transportation Trust Fund (TTF) by recommending several enhancements to TTF revenues in Fiscal Years 2008 and 2009. These recommended increases will generate a total of \$78.6 million in Fiscal Year 2008 and a total of \$117.5 million in Fiscal Year 2009. These recommended adjustments are as follows:

- ◆ An increase in the motor fuel tax of five cents effective September 1, 2007. This increase will generate \$23.4 million in Fiscal Year 2008 and \$28.6 million in Fiscal Year 2009.

- ◆ An increase in the motor vehicle document fee from 2.75 percent to 4.00 percent effective September 1, 2007 and to 4.50 percent effective September 1, 2008. These increases will generate a total of \$24.8 million in Fiscal Year 2008 and \$41.0 million in Fiscal Year 2009.
- ◆ A fifty percent increase in the vehicle registration fee for all classes of vehicle registration. This increase will generate a total of \$9.5 million in Fiscal Year 2008 and \$11.7 million in Fiscal Year 2009.
- ◆ The elimination of E-Z Pass commercial discounts at the Interstate 95 tolls. This will generate a total of \$2.9 million in Fiscal Year 2008 and \$3.6 million in Fiscal Year 2009.
- ◆ An elimination of the E-Z Pass discount on SR 1 and an increase in SR 1 tolls effective September 1, 2008. These recommendations will generate a total of \$5.1 million in Fiscal Year 2008 and \$32.6 million in Fiscal Year 2009.
- ◆ A one-time sale of real estate that will generate \$12.9 million in Fiscal Year 2008.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC has projected net General Fund revenue collections for Fiscal Year 2007 of \$3,259.4 million and \$3,367.8 million for Fiscal Year 2008. 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 \$1,056.2 million for Fiscal Year 2007 and \$1,123.7 million for Fiscal Year 2008.
- ◆ **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 \$531.8 million for Fiscal Year 2007 and \$550.9 million for Fiscal Year 2008.
- ◆ **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 \$167.0 million for Fiscal Year 2007 and \$176.9 million for Fiscal Year 2008.

FINANCIAL OVERVIEW

- ◆ **Lottery** - This category includes video lottery operations as well as traditional lottery sales. DEFAC estimates are \$251.5 million for Fiscal Year 2007 and \$243.8 million for Fiscal Year 2008.
- ◆ **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 \$166.3 million for Fiscal Year 2007 and \$179.1 million for Fiscal Year 2008.
- ◆ **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 \$162.9 million for Fiscal Year 2007 and \$147.6 million for Fiscal Year 2008.
- ◆ **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 \$296.0 million for Fiscal Year 2007 and \$296.0 million for Fiscal Year 2008.
- ◆ **Realty Transfer Tax** - The State imposes a tax of 2 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 \$93.0 million for Fiscal Year 2007 and \$93.0 million for Fiscal Year 2008.

GOVERNOR'S POLICY OVERVIEW

Governor Minner's Fiscal Year 2008 Recommended Operating Budget is presented during a time of continued population growth and increasing demands for government services. Policy makers in Delaware are faced with tough choices as federal budget cuts continue, transportation demands outpace available revenues and the revenue impact of Pennsylvania and potentially Maryland slots are recognized. For Delaware, this time of uncertainty is balanced by the Minner - Carney administration's responsible budgeting practices which have provided a cushion that allows the State to successfully adjust during times of transition.

This budget reflects the Governor's commitment to consistently apply key financial principles, such as preserving essential government services, building a sustainable financial plan, addressing future liabilities, maintaining reserves and utilizing aggressive cost containment. Through the use of these guiding principles, Delaware has built a solid financial base that has been recognized nationally for excellence including the consistent reaffirmation of the State's AAA bond rating. It will be absolutely critical to maintain this solid base in the face of the State's constantly evolving financial picture.

The proposed Fiscal Year 2008 Operating Budget totals \$3,248.7 million, an increase of 4.73 percent over the Fiscal Year 2007 Operating Budget. This budget, in combination with the Recommended Capital Budget and recommended set aside for Grants-In-Aid, is within the constitutionally mandated 98 percent limit on appropriations. This budget targets additional funding to areas of highest operational or policy priority, while continuing to exercise fiscal restraint.

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 \$98,181.1 for public education construction projects. A Referenda Contingency is included in this funding.
- ◆ The Governor recommends \$5,971.2 for the expansion of the full-day Kindergarten program. The appropriation will provide full funding for full-day Kindergarten in eleven school districts, eight charter schools and continue the funding of pilot classrooms in two additional school districts.
- ◆ The Governor recommends \$702.3 for an additional ten Math Specialists to complete this initiative. This recommendation will allow for a total of 42 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 an additional \$1,000.0 in SEED Scholarship funding to provide college scholarships to eligible students graduating from Delaware high schools.
- ◆ The Governor recommends \$9,646.5 for projected unit growth of 125 Division I, II and III units in the 2007-2008 school year.
- ◆ The Governor recommends \$2,640.0 in the Academic Excellence Block Grant to address projected unit growth.
- ◆ The Governor recommends \$3,450.0 in Public School Transportation to address formula changes.
- ◆ The Governor recommends a total of \$3,885.8 in support of Department of Education and Vision 2015 initiatives. Funding includes, but is not limited to seed funding for a virtual school, early childhood success funding and funding to address the growing population of Limited English Proficient (LEP) students.
- ◆ The Governor recommends \$250.0 for 4th Grade Challenge Fitness Grants to ensure each fourth grade student has a baseline assessment of their fitness levels to assist them and their parents in making healthy lifestyle choices.

GOVERNOR'S POLICY OVERVIEW

A LIVABLE DELAWARE THAT STRENGTHENS COMMUNITIES AND PRESERVES QUALITY OF LIFE

- ◆ The Governor recommends continued support through dedicated revenue in the amount of \$10,000.0 for Farmland Preservation and \$10,000.0 for Open Space.
- ◆ The Governor recommends \$5,037.5 in the Capital Budget to continue the Beach Preservation Program. These funds will be used for the cost-share of the Bethany/South Bethany project.
- ◆ The Governor recommends \$1,000.0 in the Capital Budget for the Forestland Preservation Program. This program will protect and enhance Delaware's remaining forested lands and provide wildlife habitat, preserve open space, and protect air and water quality.
- ◆ The Governor recommends \$1,000.0 in the Capital Budget for the Dam Emergency Planning Fund. These funds will be used to develop Emergency Action Plans (EAP), which consist of an engineering inspection, dam break analysis, inundation map, emergency action plan and an operations and maintenance plan.

HEALTH, SAFETY AND SELF-SUFFICIENCY FOR EVERY DELAWARE FAMILY

- ◆ The Governor recommends the creation of the Delaware Healthy Life Fund to be funded by increasing the Cigarette Tax by \$0.45 per pack. This increase will raise the tax for a pack of cigarettes in Delaware to \$1.00. This recommended increase is projected to generate an additional \$42,000.0 which is proposed to support programs focusing on the health needs of Delaware's most at-risk population as well as improving the State's comprehensive system of health services. The Delaware Healthy Life Fund will support the following health initiatives:
 - \$5,000.0 is recommended for Uninsured/Underinsured initiatives;
 - \$223.7 is recommended to create a Medicaid Buy-In Program to assist individuals with disabilities by allowing them to work without losing health benefits;
 - \$1,138.4 is recommended to expand the Delaware Healthy Children Program (CHIP) to an additional 975 families;

- \$3,000.0 is recommended to continue the creation of the Delaware Health Information Network (DHIN) to improve the exchange of clinical information within Delaware's medical community;
 - \$1,000.0 is recommended to support recommendations of the Governor's Task Force on Health Disparities;
 - \$2,747.3 is recommended for Delaware Technical & Community College's Two Year Nursing Expansion Program;
 - \$500.0 is recommended for the Delaware State University and the University of Delaware Four Year Nursing Expansion Programs; and
 - \$28,390.6 is recommended for rising caseloads associated with Medicaid.
- ◆ The Governor recommends an additional \$9,915.1 for the Medicaid program for a total of \$38,305.7 to cover increasing health care costs and a client base that is projected to reach over 151,000 persons during Fiscal Year 2008.
 - ◆ The Governor recommends \$3,693.2 ASF to provide funding for a comprehensive list of cancer treatment initiatives as covered in the Cancer Council Recommendations.
 - ◆ The Governor recommends \$1,919.2 for Infant Mortality Task Force Recommendations. This funding will be used to create a statewide education campaign and to increase access to care.
 - ◆ The Governor recommends \$4,016.0 in Child Care for anticipated program growth in Social Services. Also recommended is \$550.0 to annualize the Child Care rate increases from Fiscal Year 2007.
 - ◆ The Governor recommends \$4,801.5 to fund additional special population placements, community residential placements and special school graduates in Developmental Disabilities Services.
 - ◆ The Governor recommends \$9,951.9 for projected operating costs of the recently constructed Veterans Home.
 - ◆ The Governor recommends \$12,700.0 in the Capital Budget for enhancements to the State's 800 MHz emergency radio communication system.
 - ◆ The Governor recommends \$465.2 and 5.0 FTEs Trooper and 1.0 NSF FTE Trooper. This funding will expand the complement of troopers by an additional six to increase the authorized strength of the State Police to 661 troopers.

GOVERNOR'S POLICY OVERVIEW

- ◆ The Governor recommends \$3,750.0 for infrastructure requirements in Juvenile Justice programming to address the growing population of youth in special placements. An additional \$277.4 is recommended for the preservation of services through the Comprehensive Aftercare Program in Kent and Sussex counties.
- ◆ The Governor recommends \$75.0 for the implementation of a pilot prison re-entry program in New Castle County which will be modeled after the existing program in Sussex County.

ECONOMIC DEVELOPMENT THAT NURTURES AND MAINTAINS HIGH QUALITY JOBS

- ◆ The Governor recommends \$12.0 million to the Delaware Strategic Fund. This fund provides a flexible funding mechanism for attracting new jobs and retaining existing jobs in Delaware.
- ◆ The Governor recommends \$5.0 million in the Capital Budget for the fourth year of 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. Fourth year funding will focus on fast-growing, small businesses in various technology fields.
- ◆ The Governor recommends \$3.0 million for the Diamond State Port Corporation and \$2.0 million for the Riverfront Development Corporation.
- ◆ The Governor recommends \$1.0 million for the Fraunhofer Center for Molecular Biotechnology for vaccine development efforts. These funds represent the second year of a five year commitment and are projected to leverage a total of \$10.0 million in private funding.

A STATE GOVERNMENT THAT IS WELL-MANAGED

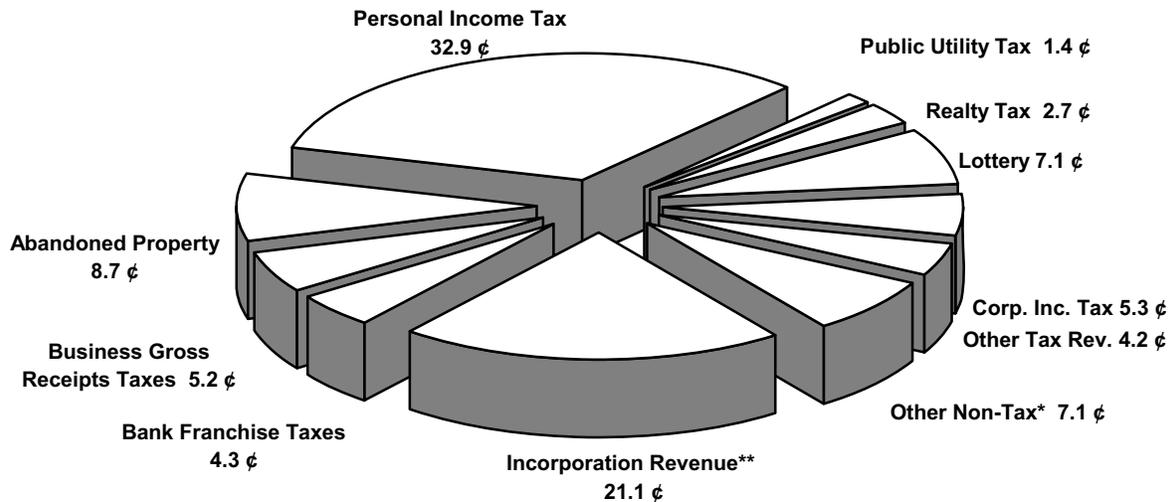
- ◆ The Governor recommends a total allocation of \$40.1 million to cover the future liability associated with Other Post Employment Benefits (OPEB) for retirees of the State of Delaware. The goal of this funding is to fully fund the liability within six years.

- ◆ The Governor recommends \$20.0 million in the Capital Budget to continue the implementation of ERP Project to replace the Delaware Financial Management System (DFMS) and the Department of Transportation's BACIS accounting system and to upgrade and add functionality to the Payroll/Human Resource Statewide Technology (PHRST) system. The implementation of this system will provide one financial management system statewide and integrate with PHRST system.
- ◆ The Governor recommends \$19,285.4 in the Capital Budget 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.
- ◆ The Governor recommends \$6.5 million for the creation of a new State Employee Workforce, Education and Training Center.
- ◆ The Governor recommends the implementation of a statewide pilot Shared Savings Program modeled after the successful program operating at the Delaware Department of Transportation. This program creates incentives for employees to participate in the development of cost effective and efficient strategies for improving state government.

FINANCIAL SUMMARY

BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2008

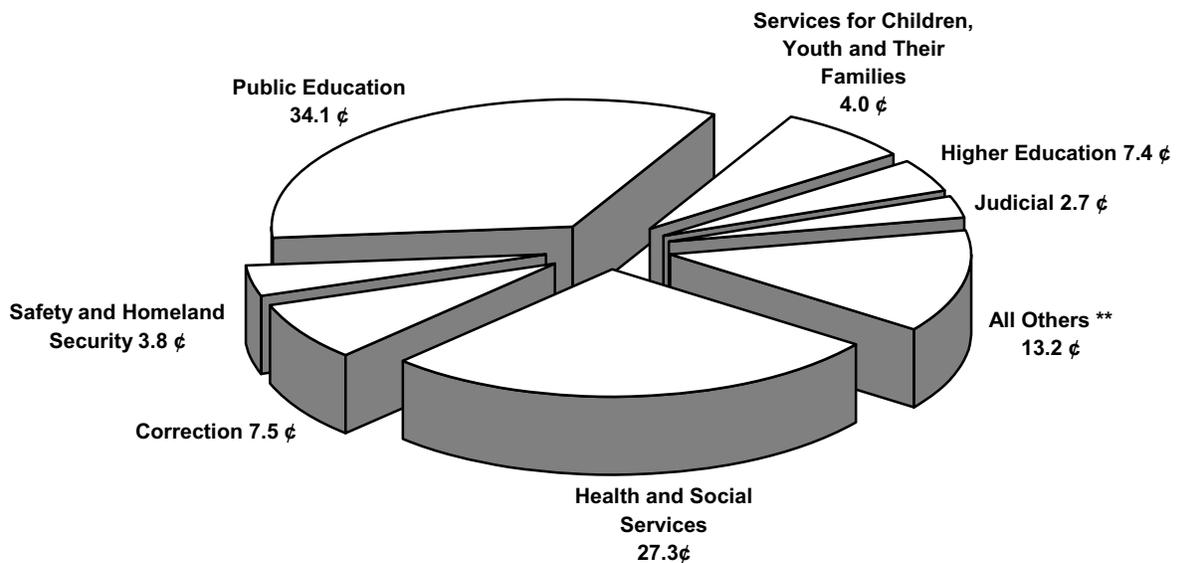
Sources of Funds (Net of Refunds)



* Includes Prior Year Unencumbered Cash Balance.

** Includes Corporate Franchise Taxes, Business Entity Fees, and Limited Partnerships & Limited Liability Corporations.

Appropriations



** Includes One-Time Items

FINANCIAL SUMMARY

Estimated General Fund Revenue

The Delaware Economic and Financial Advisory Council (DEFAC), at the December 18, 2006 meeting, adopted a Fiscal Year 2008 revenue estimate of \$3,367.8 million.

	(\$ MILLIONS)		
	2006 Actual	2007 Forecast	2008 Forecast
Revenue Categories			
Personal Income Taxes	\$ 1,163.3	\$ 1,221.2	\$ 1,297.0
Corporation Income Taxes	182.7	211.3	211.6
Franchise Taxes	526.4	544.8	563.9
Business and Occupational Gross Receipts Taxes	179.3	167.0	176.9
Hospital Board and Treatment Sales	59.9	62.0	69.3
Dividends and Interest	13.5	21.0	22.3
Public Utility Taxes	39.4	47.2	49.3
Cigarette Taxes	88.5	88.5	90.4
Estate Taxes	4.9	0.4	0.0
Realty Transfer Taxes	116.9	93.0	93.0
Insurance Taxes	66.8	71.8	75.0
Abandoned Property	325.1	296.0	296.0
Business Entity Fees	61.8	65.5	69.5
Bank Franchise Taxes	132.7	162.9	147.6
Lottery Sales	248.8	251.5	243.8
Limited Partnerships & Limited Liability Corporations	76.5	90.0	100.9
Uniform Commercial Code	14.7	12.8	11.9
Other Revenue by Department	72.1	98.0	90.6
Total Receipts	\$ 3,373.3	\$ 3,504.9	\$ 3,609.0
LESS: Revenue Refunds	(203.2)	(245.5)	(241.2)
SUBTOTAL	\$ 3,169.9 *	\$ 3,259.4	\$ 3,367.8

* Amounts do not total due to rounding.

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	FISCAL YEAR 2007	FISCAL YEAR 2008 RECOMMENDED
Legislative	\$ 14,330.6	\$ 14,973.8
Judicial	83,561.0	89,074.4
Executive	178,033.0 *	143,100.1 *
Technology and Information	36,242.4	39,022.3
Other Elective	35,614.2	57,686.5
Legal	39,652.3	43,640.1
State	23,756.3	34,827.8
Finance	19,772.2	20,828.9
Health and Social Services	849,832.3	888,788.3
Children, Youth and Their Families	121,459.1	128,903.2
Correction	229,180.0	242,993.0
Natural Resources and Environmental Control	41,433.2	43,088.6
Safety and Homeland Security	114,455.6	121,731.1
Labor	7,310.8	7,286.3
Agriculture	7,858.5	8,753.1
Elections	3,871.5	4,055.6
Fire	4,705.1	4,775.3
National Guard	4,333.2	4,807.3
Exceptional Citizens	165.3	176.6
Higher Education	235,639.4	241,584.4
Public Education	1,050,658.9	1,108,620.6
STATE TOTAL	\$ 3,101,864.9	\$ 3,248,717.3

* Includes One-Time Items to be allocated statewide.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

	Fiscal Year 2006 Actual*	Fiscal Year 2007 Estimated	Fiscal Year 2008 Projected
Revenue	\$ 3,169.9	\$ 3,259.4	\$ 3,367.8
Appropriations			
Budget	2,836.0	3,101.9	3,248.7
Grants	42.4	50.0	54.6
Supplementals			
-enacted	329.6	243.3	
-estimated			43.0
Total Appropriations	3,208.0	3,395.2	3,346.3
Continuing and Encumbered			
Appropriations (prior year)	327.8	342.5	288.6
Total	3,535.8	3,737.7	3,634.9
Less: Continuing & Encumbered			
Appropriations (current year)	(342.5)	(288.6)	(160.0)
Reversions	(12.8)	(10.0)	(10.0)
Total Ordinary Expenditures	3,180.5	3,439.1	3,464.9
Balances:			
Operating Balance	(10.6)	(179.7)	(97.1)
Prior Year Cash Balance	701.2	690.6	510.9
Cumulative Cash Balance	690.6	510.9	413.8
Less: Continuing & Encumbered			
Appropriations (current year)	(342.5)	(288.6)	(160.0)
Reserve	(161.1)	(175.4)	(180.5)
Unencumbered Cash Balance	187.0	46.9	73.3
Appropriation Limit			
Cumulative Cash Balance (prior year)	701.2	690.6	510.9
Less: Continuing & Encumbered			
Appropriations (prior year)	(327.8)	(342.5)	(288.6)
Reserve (prior year)	(148.2)	(161.1)	(175.4)
Unencumbered Cash Balance	225.2	187.0	46.9
+Net Fiscal Year Revenue	3,169.9	3,259.4	3,367.8
Total (100% Limit)	3,395.1	3,446.4	3,414.7
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	\$ 3,327.2	\$ 3,377.5	\$ 3,346.4

Figures represent DEFAC revenue and expenditure estimates as of the December 18, 2006 meeting.

*Amounts do not total due to rounding.

FINANCIAL CHARTS

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

SOURCE	Enacted FY 2006	Enacted FY 2007	Governor's Recommended FY 2008
STATE CAPITAL PROJECTS (NON-TRANSPORTATION)			
General Obligation Bonds	\$ 150,320.0	\$ 163,835.0	\$ 168,390.0
Reversions and Reprogramming	9,838.3	11,540.4	9,390.8
Bond Premium	-	2,472.2	3,800.0
General Funds	281,625.8	243,345.1	43,000.0
Sub-Total (Non-Transportation):	\$ 441,784.1	\$ 421,192.7	\$ 224,580.8
TRANSPORTATION PROJECTS			
Transportation Trust Fund	\$ 393,100.0	\$ 60,555.1	\$ 304,382.8
Transportation Trust Fund - Reauthorization	-	115,753.1	25,826.5
Sub-Total (Transportation):	\$ 393,100.0	\$ 176,308.2	\$ 330,209.3
GRAND TOTAL:	\$ 834,884.1	\$ 597,500.9	\$ 554,790.1