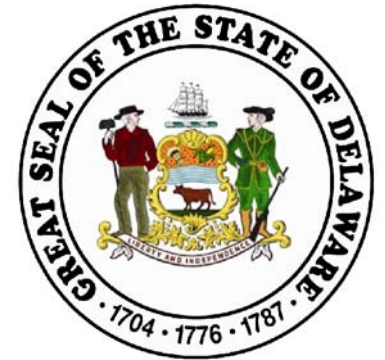




State of Delaware

Fiscal Year 2011



Governor's Recommended Budget Volume I

Jack A. Markell
Governor

Presented to
the 145th General Assembly
Second Session

January 2010



Governor Jack A. Markell

January 28, 2010

To the Members of the 145th General Assembly and to all Delawareans:

In compliance with 29 Del. C. Section 6335(a), I respectfully submit for your consideration the Fiscal Year 2011 Governor's Recommended Operating Budget and Bond and Capital Improvements Act for the State of Delaware.

I present to you today a budget that not only builds upon the efficiencies we enacted last year but one that positions our state government to strategically address the needs of our residents while maintaining our fiscal responsibilities.

Working together, I am confident we will continue to strengthen our economy, keep our core commitments and stay on a course to improve and enhance the First State. I thank you for your consideration and look forward to continuing to work with all of the members of the 145th General Assembly to improve the lives of Delawareans.

Sincerely,

A handwritten signature in black ink that reads "Jack Markell".

Jack A. Markell
Governor

FISCAL YEAR 2011 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 2011 Recommended General Fund Operating Budget is \$3,171.3 million. In addition, Governor Markell has set aside \$41.4 million for Grants-in-Aid and \$60.0 million in dedicated cash to the Bond and Capital Improvements Act. Total recommended Fiscal Year 2011 General Fund appropriations are \$3,272.7 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2011 revenue plus projected carryover funds, which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2011 Recommended Bond and Capital Improvements Act totals \$356.5 million. Of this amount, \$222.7 million is recommended for state capital projects and \$133.8 million is recommended for transportation projects. Of the \$222.7 million supporting state projects, \$162.7 million is General Obligation Bond Authorization and \$60.0 million is General Fund cash.

Fiscal Year 2011 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates of December 21, 2009. Governor Markell has recommended adjustments to these figures that will provide a net increase to the DEFAC revenue estimates of \$78.5 million in Fiscal Year 2011. These recommended adjustments are as follows:

- ◆ An increase of \$40.5 million in Lottery by enacting Table Game legislation;
- ◆ An increase of \$24.0 million by redirecting Abandoned Property revenue back to the General Fund; and
- ◆ An increase of \$14.0 million by redirecting Realty Transfer Tax revenue back to the General Fund.

In addition, Governor Markell recommends the Fiscal Year 2010 unencumbered cash balance estimate be increased by \$14.7 million. This adjustment reflects a \$10.8 million rebalancing of the Budget Reserve to the constitutionally mandated 5.0 percent and additional reversions of \$3.9 million.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC projected net General Fund revenue collections for Fiscal Year 2010 of \$3,143.6 million and \$3,176.3 million for Fiscal Year 2011. 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 6.95 percent. DEFAC estimates (after refunds) are \$879.0 million for Fiscal Year 2010 and \$951.7 million for Fiscal Year 2011.

- ◆ **Franchise Tax and Limited Partnership/Limited Liability Company Tax** - The Franchise Tax is imposed upon domestic corporations incorporated in Delaware and based on either the outstanding shares of stock of a corporation or on gross assets. In addition, every domestic Limited Partnership and Limited Liability Company formed in Delaware and every foreign Limited Partnership and Limited Liability Company registered to do business in Delaware is required to pay an annual tax of \$250. DEFAC estimates (after refunds) for these categories are \$760.7 million for Fiscal Year 2010 and \$737.5 million for Fiscal Year 2011.
- ◆ **Business and Occupational Gross Receipts Tax** - This tax is imposed on the gross receipts of most businesses with tax rates ranging from 0.1037 percent to 2.0736 percent, depending upon the category of the business activity. DEFAC estimates are \$190.5 million for Fiscal Year 2010 and \$190.5 million for Fiscal Year 2011.
- ◆ **Lottery** - This category includes video lottery operations, as well as traditional lottery sales. DEFAC estimates are \$288.7 million for Fiscal Year 2010 and \$226.2 million for Fiscal Year 2011.
- ◆ **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 \$47.5 million for Fiscal Year 2010 and \$68.6 million for Fiscal Year 2011.
- ◆ **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 \$42.2 million for Fiscal Year 2010 and \$35.6 million for Fiscal Year 2011.
- ◆ **Abandoned Property** - Any debt obligation that has gone unclaimed or undelivered, or security that has remained undelivered for three 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 \$400.0 million for Fiscal Year 2010 and \$380.0 million for Fiscal Year 2011.

FINANCIAL OVERVIEW

◆ **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 where the local levy exceeds 1.0 percent, the State rate decreases to 1.5 percent. DEFAC estimates are \$40.4 million for Fiscal Year 2010 and \$27.4 million for Fiscal Year 2011.

GOVERNOR'S BUDGET OVERVIEW

The State of Delaware has to contend with a national recession that resulted in increased unemployment, corporate restructurings and downturns in the real estate and banking sectors. Although recent national economic indicators have pointed toward the beginnings of an economic recovery, fundamental indicators, such as employment and personal income, have yet to show signs of significant improvement.

In Delaware, revisions to revenue estimates provided by the Delaware Economic and Financial Advisory Council (DEFAC) continue to reflect a weakened economy. Since June 2009, DEFAC revenue estimates, adjusted for legislative changes have been reduced by \$47.1 million for Fiscal Year 2010 and by \$89.3 million for Fiscal Year 2011. Total net revenue collections are estimated at \$3,143.6 million for Fiscal Year 2010 and \$3,176.3 million for Fiscal Year 2011.

Governor's Recommended Budget

It is within this financial environment Governor Markell presents a balanced financial plan including the Fiscal Year 2011 Recommended Operating Budget and Bond and Capital Improvements Act for the State of Delaware. The Governor's proposed Fiscal Year 2011 General Fund Operating Budget totals \$3,171.3 million. This budget, in combination with the Recommended Bond and Capital Improvements Act of \$356.5 million and recommended set aside for Grants-In-Aid of \$41.4 million, is within the constitutionally mandated 98.0 percent limit on appropriations.

This budget maintains core government services while making key investments in initiatives that will contribute to the growth of a vibrant economy and generate jobs for Delawareans. It builds upon Governor Markell's vision for a more efficient government, which will provide more responsive services and programs for all Delawareans. It preserves funding for the classroom to ensure Delaware students receive a world-class education and also allocates remaining American Recovery and Reinvestment Act (ARRA) funds to supplement state funding for Medicaid, public education and higher education.

Preserving Jobs

The Recommended Bond and Capital Improvements Act contains several funding initiatives directed toward enhancing Delaware's economy and generating jobs. These include:

- \$13.9 million for the Strategic Fund, which represents the primary funding source used by the Delaware Economic Development Office to provide customized financial assistance to businesses.

- \$1.0 million for the Experimental Program to Stimulate Competitive Research (EPSCOR). These matching funds enable Delaware to receive \$3.0 million in federal funds.
- \$1.0 million for the final year of a 5-year commitment to the Fraunhofer Vaccine Development project. This project will help Delaware maintain its competitive edge in the field of applied biotechnology.
- \$1.0 million in state match for the IDeA Network of Biomedical Research Excellence (INBRE) program. This program is designed to build a statewide infrastructure in facilities for research into cancer, neuroscience and cardiovascular diseases.
- \$1.0 million for the Health Sciences Alliance. The Alliance with the University of Delaware, Thomas Jefferson University, the Nemours Foundation and Christiana Care is designed to train health-related professionals and translate discoveries into community health settings. This funding will help the Alliance leverage federal funds.
- \$10.0 million for the Diamond State Port Corporation for capital improvement projects designed to retain existing customers and attract new businesses.
- \$2.3 million for the Riverfront Development Corporation.
- \$2.0 million to the University of Delaware for redevelopment of the Chrysler site.

Government Efficiency

The Fiscal Year 2011 Recommended Operating Budget includes numerous efficiencies, restructurings and cost savings initiatives. Included among the cost savings initiatives are the following:

- A \$9.3 million additional reduction in personnel costs associated with the complement reduction in Fiscal Year 2010.
- A reduction of \$2.5 million in energy funding resulting from increased controls and improvements to existing facilities.
- A reduction of \$1.5 million resulting from procurement efficiencies and contract savings within the Department of Education.
- A reduction of \$1.1 million resulting from the ongoing consolidation of existing leases of state facilities.
- A reduction of \$1.0 million resulting from the closure of a portion of the Multi-Security Building at Sussex Correctional Institute. This efficiency will reduce overtime expenditures within the Department of Correction.

GOVERNOR'S BUDGET OVERVIEW

- A reduction of \$0.5 million resulting from a proposed new tier of pension benefits for all hires starting state service as of January 1, 2011. Additional savings will accrue in ensuing fiscal years as a greater percentage of employees will be covered in the new tier.
- A proposed new tier for employee health benefits for employees hired after January 1, 2011. Savings as a result of this new tier will accrue to the Employee Health Fund.
- Development by the State Employee Benefits Committee of an integrated health management program that includes wellness, disease prevention and chronic disease management for the State of Delaware's active employees, spouses, dependents and non-Medicare eligible retirees.
- A savings of \$1.0 million resulting from a consolidation of Information Technology resources statewide.

Included among the consolidations are the following:

- Consolidation of the Department of Natural Resources and Environmental Control from six divisions to three.
- Consolidation of the Delaware Department of Transportation's Toll Administration into the Division of Motor Vehicles.
- Consolidation of the Merit Employee Relations Board with the Public Employment Relations Board, which will be named the Employment Relations Boards.
- Consolidate the Commission for Women and the Office of Human Relations within the Department of State.
- Elimination of the Delaware Sentencing Research and Evaluation Committee.
- Consolidation of the Board of Parole into the Department of Correction.
- Consolidation of the Delaware Advisory Council on Career and Technical Education into the Department of Education.

Education

The Governor's Recommended Operating and Capital Budgets reaffirm the Governor's commitment to education through the following:

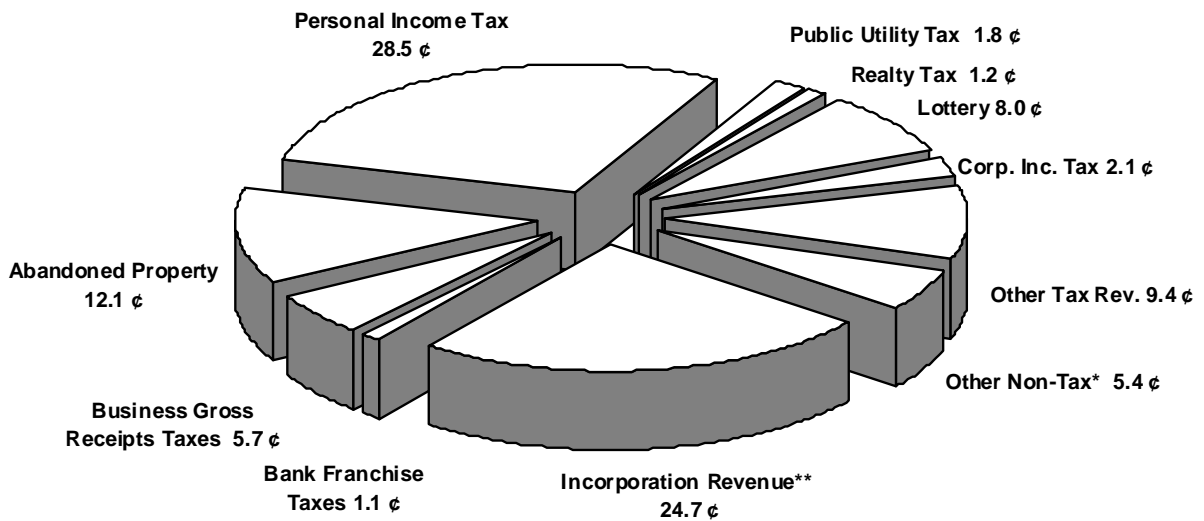
- \$43.0 million of ARRA Fiscal Stabilization funding is recommended for Fiscal Year 2011. These programs serve to maximize funding available for students and teachers in the classroom.
- \$6.0 million to fully fund a projected growth of 90.4 units for school year 2010 - 2011.

- \$8.5 million to fully fund experience salary steps for eligible education employees.
- \$98.8 million for Public Education capital projects. Included is funding for Minor Capital Improvements and funding to finish referenda projects in Colonial, Appoquinimink, Caesar Rodney, Smyrna, Lake Forest, Milford and Brandywine school districts. Funding is also included for the most recent Appoquinimink referendum, as well as a contingency for pending referenda.

FINANCIAL SUMMARY

BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2011

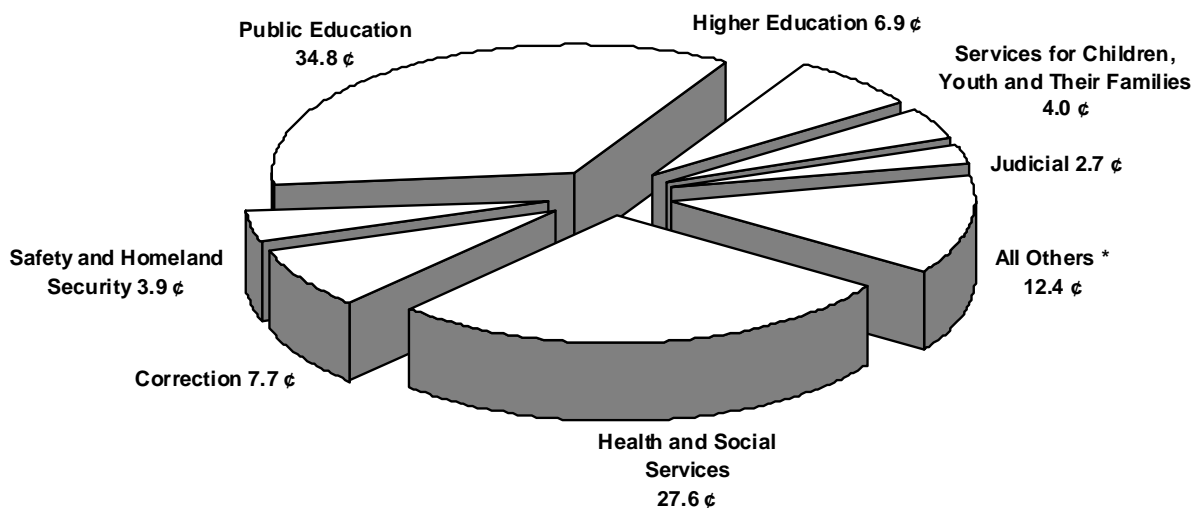
Sources of Funds (Net of Refunds)



*Includes Prior Year Unencumbered Cash Balance.

**Includes Corporate Franchise Taxes, Business Entity Fees, and Limited Partnerships and 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 21, 2009 meeting, adopted a Fiscal Year 2011 revenue estimate of \$3,176.3 million.

| | (\$ MILLIONS) | | |
|---|--------------------|-------------------|-------------------|
| | 2009 Actual | 2010 Forecast | 2011 Forecast |
| Revenue Categories | | | |
| Personal Income Taxes | \$ 1,105.2 | \$ 1,066.0 | \$ 1,135.7 |
| Corporation Income Taxes | 162.1 | 92.5 | 103.6 |
| Franchise Taxes | 574.2 | 624.9 | 591.4 |
| Business and Occupational Gross Receipts Taxes | 164.1 | 190.5 | 190.5 |
| Hospital Board and Treatment Sales | 77.0 | 78.1 | 81.3 |
| Dividends and Interest | 8.9 | 10.0 | 15.5 |
| Public Utility Taxes | 55.9 | 56.0 | 59.6 |
| Cigarette Taxes | 125.7 | 134.2 | 140.3 |
| Estate Taxes | 0.1 | 2.5 | 25.0 |
| Realty Transfer Taxes | 44.6 | 40.4 | 27.4 |
| Insurance Taxes | 77.3 | 60.2 | 63.4 |
| Abandoned Property | 392.1 | 400.0 | 380.0 |
| Business Entity Fees | 50.8 | 73.0 | 74.8 |
| Bank Franchise Taxes | 81.8 | 42.2 | 35.6 |
| Lottery Sales | 248.0 | 288.7 | 226.2 |
| Limited Partnerships and Limited Liability Corporations | 137.1 | 147.8 | 158.1 |
| Uniform Commercial Code | 11.2 | 13.1 | 13.5 |
| Other Revenue by Department | 130.3 | 100.8 | 111.1 |
| Total Receipts | \$ 3,446.4 | \$ 3,420.9 | \$ 3,433.0 |
| LESS: Revenue Refunds | (298.3) | (277.3) | (256.7) |
| SUBTOTAL | \$ 3,148.0* | \$ 3,143.6 | \$ 3,176.3 |
| PLUS: Abandoned Property | | | 24.0 |
| Realty Transfer Taxes | | | 14.0 |
| Lottery Sales | | | 40.5 |
| TOTAL | | | \$ 3,254.8 |

*This figure is not the sum of the component factors due to rounding of actual amounts.

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

| | FISCAL YEAR 2010 | FISCAL YEAR 2011 RECOMMENDED |
|---|-----------------------------|---|
| Legislative | \$ 13,855.7 | \$ 13,841.6 |
| Judicial | 87,123.6 | 86,881.1 |
| Executive | 97,891.9 * | 136,416.7 * |
| Technology and Information | 35,164.9 | 34,177.3 |
| Other Elective | 40,585.1 | 62,419.6 ** |
| Legal | 42,657.4 | 41,362.8 |
| State | 27,557.0 | 27,754.4 |
| Finance | 20,456.9 | 15,234.9 |
| Health and Social Services | 813,457.9 | 876,719.5 |
| Children, Youth and Their Families | 130,934.0 | 126,027.1 |
| Correction | 249,451.4 | 243,827.7 |
| Natural Resources and Environmental Control | 37,227.2 | 35,196.7 |
| Safety and Homeland Security | 122,397.2 | 123,004.5 |
| Labor | 6,749.8 | 6,565.3 |
| Agriculture | 7,535.8 | 7,344.9 |
| Elections | 3,801.8 | 3,743.1 |
| Fire | 4,440.5 | 4,323.1 |
| National Guard | 4,401.8 | 4,224.4 |
| Exceptional Citizens | 167.6 | 167.2 |
| Higher Education | 224,598.1 | 217,997.8 |
| Public Education | 1,121,078.7 | 1,104,071.8 |
| STATE TOTAL | \$ 3,091,534.3 | \$ 3,171,301.5 |

*Fiscal Year 2010 includes One-Time Items to be allocated statewide and Fiscal Year 2011 Recommended includes One-Time Items to be allocated statewide.

**Includes Debt Service.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

| | Fiscal Year 2009 Actual | Fiscal Year 2010 Estimated | Fiscal Year 2011 Projected |
|--------------------------------------|-------------------------------|----------------------------------|----------------------------------|
| Revenue | \$ 3,148.0 | \$ 3,143.6 | \$ 3,254.8 |
| Appropriations | | | |
| Budget | 3,362.9 | 3,091.5 | 3,171.3 |
| Grants | 45.2 | 35.4 | 41.4 |
| Supplementals | | | |
| -enacted | 83.4 | | |
| -estimated | | | 60.0 |
| Total Appropriations | 3,491.5 | 3,126.9 | 3,272.7 |
| Continuing and Encumbered | | | |
| Appropriations (prior year) | 234.8 | 183.7 | 171.1 |
| Total | 3,726.3 | 3,310.6 | 3,443.8 |
| Less: Continuing & Encumbered | | | |
| Appropriations (current year) | (183.7) | (171.1) | (160.0) |
| Reversions | (247.0) | (48.9) | (10.0) |
| Total Ordinary Expenditures | 3,295.5* | 3,090.6 | 3,273.8 |
| Balances | | | |
| Operating Balance | (147.5) | 53.0 | (19.0) |
| Prior Year Cash Balance | 526.0 | 378.5 | 431.4 |
| Cumulative Cash Balance | 378.5 | 431.4* | 412.4 |
| Less: Continuing & Encumbered | | | |
| Appropriations (current year) | (183.7) | (171.1) | (160.0) |
| Reserve | (186.4) | (175.6) | (175.6) |
| Unencumbered Cash Balance | 8.3* | 84.7 | 76.8 |
| Appropriation Limit | | | |
| Cumulative Cash Balance (prior year) | 526.0 | 378.5 | 431.4 |
| Less: Continuing & Encumbered | | | |
| Appropriations (prior year) | (234.8) | (183.7) | (171.1) |
| Reserve (prior year) | (182.8) | (186.4) | (175.6) |
| Unencumbered Cash Balance | 108.5* | 8.3* | 84.7 |
| +Net Fiscal Year Revenue | 3,148.0 | 3,143.6 | 3,254.8 |
| Total (100% Limit) | 3,256.5 | 3,151.9 | 3,339.5 |
| X 98% Limit | 0.98 | 0.98 | 0.98 |
| APPROPRIATION LIMIT | \$ 3,191.4 | \$ 3,088.9 | \$ 3,272.7 |

Figures represent DEFAC revenue and expenditure estimates as of the December 21, 2009 meeting, plus Governor's Recommended Revenue and Expenditure Adjustments.

*This figure is not the sum of the component factors due to rounding of actual amounts.

FINANCIAL CHARTS

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

| SOURCE | Enacted Fiscal Year 2009 | Enacted Fiscal Year 2010 | Governor's Recommended Fiscal Year 2011 |
|---|-----------------------------|-----------------------------|---|
| STATE CAPITAL PROJECTS | | | |
| General Obligation Bonds | \$ 172,500.0 | \$ 159,500.0 | \$ 162,740.0 |
| Reversions and Reprogramming | 2,277.5 | 52,100.0 | - |
| Bond Premium | - | - | - |
| K-12 School Construction Prioritization Fund | 75,000.0 | - | - |
| General Funds | 83,391.3 | - | 60,000.0 |
| Sub-Total (Non-Transportation): | \$ 333,168.8 | \$ 211,600.0 | \$ 222,740.0 |
| TRANSPORTATION PROJECTS | | | |
| Transportation Trust Fund | \$ 191,079.6 | \$ 35,709.0 | \$ 133,809.5 |
| Transportation Trust Fund - Reauthorization | 77,512.1 | 37,188.0 | - |
| Sub-Total (Transportation): | \$ 268,591.7 | \$ 72,897.0 | \$ 133,809.5 |
| GRAND TOTAL: | \$ 601,760.5 | \$ 284,497.0 | \$ 356,549.5 |

