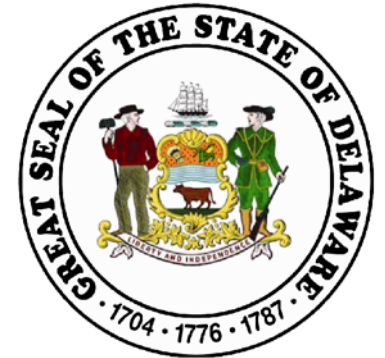


State of Delaware

Fiscal Year 2012



Governor's Recommended Budget Volume I

**Jack A. Markell
Governor**

Presented to
the 146th General Assembly
First Session

January 2011



Governor Jack A. Markell

January 27, 2011

To the Members of the 146th General Assembly and to all Delawareans:

In compliance with 29 Del. C. Section 6335(a), I respectfully submit for your consideration the Fiscal Year 2012 Governor's Recommended Operating Budget and Bond and Capital Improvements Act for the State of Delaware.

As we work together to ensure our Delaware state government maintains its core commitments, I present to you today a budget that builds upon our strong fiscal principles and priorities, invests in our classrooms and is strategically positioned to help move our economy forward. In keeping with our constitutional mandates, my Recommended Operating Budget appropriates 98 percent of projected revenues and maintains the five percent budget reserve. Similarly, my Recommended Capital Improvements Act fulfills the three statutory debt limitation tests.

Working together, I am confident we will successfully create more jobs for Delawareans, build a world-class education system for our students and continue to make government more efficient. I thank you for your consideration and look forward to working with all of the members of the 146th General Assembly to build a better Delaware.

Sincerely,

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

Jack A. Markell
Governor

FISCAL YEAR 2012

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 Delaware Budget System (DBS) reports including recommendations.

Please refer to the Table of Contents for page location of specific department information or financial statements.

TABLE OF CONTENTS

	Page
Financial Overview	1
Governor’s Budget Overview	2
Financial Summary	
<i>Budget Dollar Governor’s Recommended Budget Fiscal Year 2012</i>	4
<i>Estimated General Fund Revenue</i>	5
<i>General Fund Budget by Department by Fiscal Year</i>	6
Financial Charts	
<i>Fiscal Overview</i>	7
<i>Enacted and Recommended Funding Sources</i>	8

DEPARTMENT NARRATIVES AND HIGHLIGHTS

Legislative	(01-00-00)	9
Judicial	(02-00-00)	13
Executive	(10-00-00)	37
Technology and Information	(11-00-00)	61
Other Elective	(12-00-00)	69
Legal	(15-00-00)	81
State	(20-00-00)	87
Finance	(25-00-00)	118
Health and Social Services	(35-00-00)	125
Services for Children, Youth and Their Families	(37-00-00)	152
Correction	(38-00-00)	163
Natural Resources and Environmental Control	(40-00-00)	178
Safety and Homeland Security	(45-00-00)	196
Transportation	(55-00-00)	213
Labor	(60-00-00)	230
Agriculture	(65-00-00)	241
Elections	(70-00-00)	252
Fire Prevention Commission	(75-00-00)	257
Delaware National Guard	(76-00-00)	263
Advisory Council for Exceptional Citizens	(77-00-00)	265
Higher Education	(90-00-00)	267
Education	(95-00-00)	277

APPENDIX

State of Delaware Organization Chart	289
The Delaware Budget Process	290
Explanation of Financial Schedules	291
<i>General Fund - Consolidated Statement of Revenues and Expenditures - Exhibit A</i>	292
<i>All Funds - Comparative Consolidated Statement of Revenues and Expenditures - Exhibit B</i>	297
<i>Capital Improvement Fund Expenditures - Exhibit C</i>	299
Definition of Budgetary Terms	300

FINANCIAL OVERVIEW

RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2012 Recommended General Fund Operating Budget is \$3,432.5 million. In addition, Governor Markell has set aside \$35.2 million for Grants-in-Aid and \$49.5 million in dedicated cash to the Bond and Capital Improvements Act. Total recommended Fiscal Year 2012 General Fund appropriations are \$3,517.3 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2012 revenue plus projected carryover funds, which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2012 Recommended Bond and Capital Improvements Act totals \$420.5 million. Of this amount, \$222.3 million is recommended for state capital projects and \$198.2 million is recommended for transportation projects. Of the \$222.3 million supporting state projects, \$172.8 million is General Obligation Bond Authorization and \$49.5 million is General Fund cash. In addition, Governor Markell is recommending \$18.0 million in debt reduction.

Fiscal Year 2012 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates of December 20, 2010. Governor Markell has recommended adjustments to these figures that will provide a net increase to the DEFAC revenue estimates of \$10.2 million in Fiscal Year 2012. These recommended adjustments are as follows:

- ◆ An increase of \$24.0 million by redirecting Abandoned Property revenue back to the General Fund;
- ◆ An increase of \$20.0 million by redirecting Realty Transfer Tax revenue back to the General Fund; and
- ◆ A decrease of \$33.8 million by eliminating the transfer of school district debt service reimbursement to the General Fund.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC projected net General Fund revenue collections for Fiscal Year 2011 of \$3,359.7 million and \$3,444.9 million for Fiscal Year 2012. 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 \$951.7 million for Fiscal Year 2011 and \$1,027.7 million for Fiscal Year 2012.

- ◆ **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 \$767.0 million for Fiscal Year 2011 and \$787.2 million for Fiscal Year 2012.
- ◆ **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 \$195.0 million for Fiscal Year 2011 and \$214.5 million for Fiscal Year 2012.
- ◆ **Lottery** - This category includes video lottery operations, as well as traditional lottery sales. DEFAC estimates are \$272.8 million for Fiscal Year 2011 and \$252.1 million for Fiscal Year 2012.
- ◆ **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 \$110.8 million for Fiscal Year 2011 and \$114.1 million for Fiscal Year 2012.
- ◆ **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 \$76.3 million for Fiscal Year 2011 and \$84.3 million for Fiscal Year 2012.
- ◆ **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 \$424.0 million for Fiscal Year 2011 and \$390.0 million for Fiscal Year 2012.
- ◆ **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 where the local levy exceeds 1.0 percent, the State rate decreases to 1.5 percent. DEFAC estimates are \$42.5 million for Fiscal Year 2011 and \$31.7 million for Fiscal Year 2012.

GOVERNOR'S BUDGET OVERVIEW

The Delaware economy, consistent with national economic indicators, has begun to show signs of an economic recovery. The national recession is widely considered to have ended at the end of the second quarter of 2009, but a number of factors will continue to restrict improvements in the labor market for the immediate future. Lingering effects on the real estate sector are dampening prospects for economic growth. In addition, employers remain reluctant to hire more workers because consumer confidence is still lacking.

Although the economic recovery continues to take hold, State of Delaware general fund revenue forecasts continue to reflect only modest growth. Since June 2010, Delaware Economic Financial Advisory Council (DEFAC) revenue estimates, adjusted for legislative changes have increased by \$21.5 million for Fiscal Year 2011 and by \$4.4 million for Fiscal Year 2012. Total net revenue collections as estimated by DEFAC are \$3,359.7 million for Fiscal Year 2011 and \$3,444.9 million for Fiscal Year 2012. Revenue growth is expected to remain moderate until labor markets recover substantially.

Governor's Recommended Budget

The Governor's proposed Fiscal Year 2012 Operating Budget totals \$3,432.5 million. This budget, in combination with the Recommended Capital Improvement Plan of \$420.5 million and recommended set aside for Grants-In-Aid of \$35.2 million, is within the constitutionally mandated 98 percent limit on appropriations. Importantly, the financial plan is balanced without additional or increased taxes and fees.

The recommended appropriations support core government services for Delawareans and provide several targeted investments aimed at generating jobs for Delawareans.

Preserving Jobs

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

- \$31.9 million for the Delaware Strategic Fund. The Delaware Strategic Fund represents the primary funding source used by the Delaware Economic Development Office to provide customized financial assistance to businesses through critical business development, retention and creation projects and training programs.
- \$1.0 million for the fourth year funding 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 Fraunhofer Center for Molecular Biotechnology (CMB) Vaccine Development. Funding is intended to create high-tech, high-impact jobs, spin-off businesses, new partnerships and alliances and enable CMB to leverage its unique technologies in the biotech marketplace.
- \$1.0 million in state match for the third year of 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.
- \$5.0 million for the Diamond State Port Corporation for capital improvement projects designed to retain existing customers and attract new businesses.
- \$2.35 million for the Riverfront Development Corporation.

Government Efficiency

The Fiscal Year 2012 Recommended Budget includes several efficiencies, restructurings and cost savings initiatives. Included among the cost savings initiatives are the following:

- A reduction of \$3.2 million representing first year savings from a pension and health benefits restructuring proposal.
- A reduction of \$1.2 million through reducing beds in Department of Health and Social Services long - term care facilities while increasing community placements.
- A reduction of \$3.0 million due to the phase out of the General Assistance program
- A reduction of \$0.5 million and 4.0 FTEs due to a restructuring of the Printing and Publishing unit in OMB. OMB will essentially terminate printing production services as state government moves toward less printing and providing print services through contractual vendors.
- A reduction of \$0.5 million due to the elimination of the Board of Parole.
- A bond deauthorization of \$18.0 million of previously authorized but unissued general obligation bonds.

Education

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

- \$6.7 million to fully fund a projected growth of 100 units for school year 2011 - 2012.

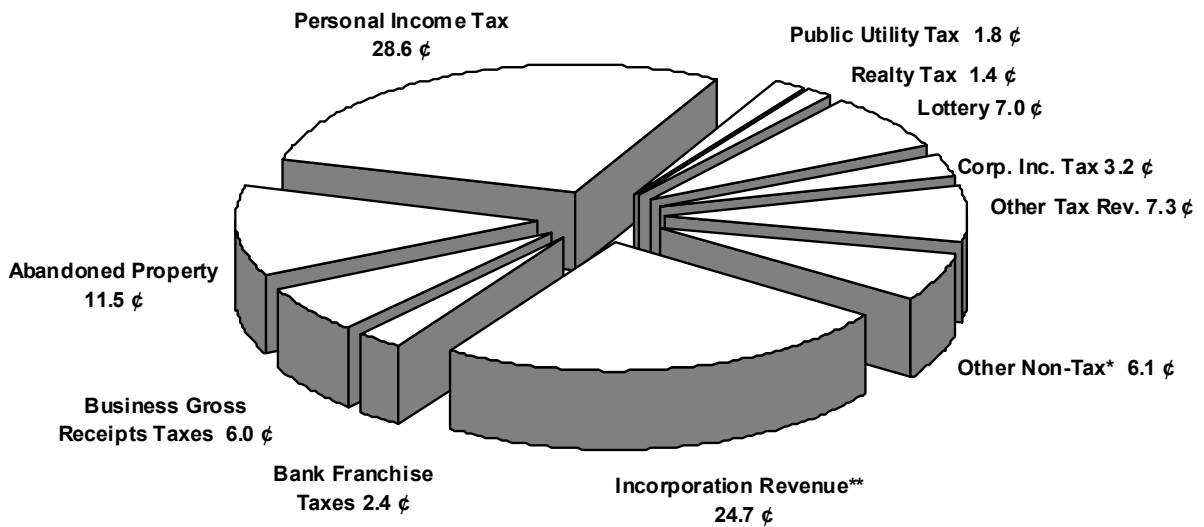
GOVERNOR'S BUDGET OVERVIEW

- \$7.5 million to fully fund experience salary steps for teachers and paraprofessionals in the classroom.
- \$2.2 million to support Full-Day Kindergarten in the Christina and Milford School Districts.
- \$3.8 million in additional support for the Delaware Comprehensive Assessment System. This online, web-based scoring system for reading/English language arts, mathematics, science and social studies will provide a more accurate measure for student growth and more timely and detailed information to educators for planning and improving educational programs at the school, district and state level.
- \$93.0 million for Public Education capital projects. Included is Minor Capital Improvements funding and funding for referenda projects in the Appoquinimink, Capital, Seaford, Sussex Vocational Technical, Laurel, Woodbridge, Cape Henlopen, New Castle County Vocational Technical and Polytech school districts.
- \$0.7 million to Delaware State University for the full year funding of the Inspire Scholarship program.

FINANCIAL SUMMARY

BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2012

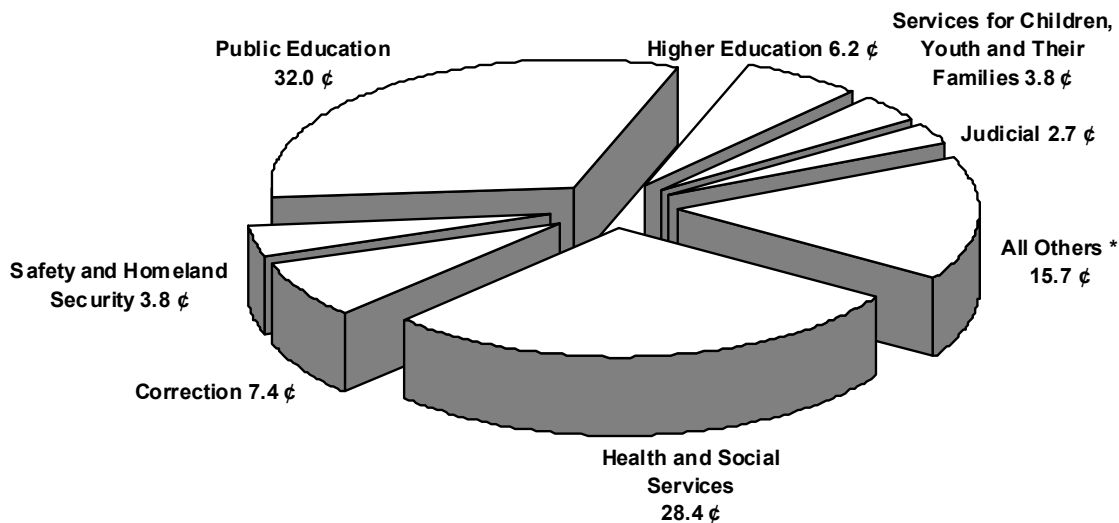
Sources of Funds (Net of Refunds)



* 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 20, 2010 meeting, adopted a Fiscal Year 2012 revenue estimate of \$3,444.9 million.

	(\$ MILLIONS)		
Revenue Categories	2010 Actual	2011 Forecast	2012 Forecast
Personal Income Taxes	\$ 1,061.5	\$ 1,136.7	\$ 1,214.0
Corporation Income Taxes	125.6	175.8	150.9
Franchise Taxes	633.1	622.5	634.9
Business and Occupational Gross Receipts Taxes	194.6	195.0	214.5
Hospital Board and Treatment Sales	74.7	71.4	72.7
Dividends and Interest	10.9	11.0	12.1
Public Utility Taxes	56.7	59.5	62.5
Cigarette Taxes	132.3	133.0	133.0
Estate Taxes	0.3	24.0	25.0
Realty Transfer Taxes	46.9	42.5	31.7
Insurance Taxes	51.8	50.5	53.1
Abandoned Property	493.2	424.0	390.0
Business Entity Fees	74.9	79.8	83.8
Bank Franchise Taxes	54.0	76.3	84.3
Lottery Sales	275.5	272.8	252.1
Limited Partnerships and Limited Liability Corporations	145.0	156.5	164.3
Uniform Commercial Code	14.1	16.2	16.7
Other Revenue by Department	86.5	126.9	116.4
Total Receipts	\$ 3,531.6	\$ 3,674.4	\$ 3,712.0
LESS: Revenue Refunds	(296.4)	(314.7)	(267.1)
SUBTOTAL	\$ 3,235.1*	\$ 3,359.7	\$ 3,444.9
PLUS: Abandoned Property			24.0
Realty Transfer Taxes			20.0
Other Revenue			(33.8)
TOTAL			\$ 3,455.1

*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 2011	FISCAL YEAR 2012 RECOMMENDED
Legislative	\$ 13,783.6	\$ 14,335.8
Judicial	87,089.7	91,528.6
Executive	207,847.0 *	192,190.0 *
Technology and Information	33,962.0	34,399.3
Other Elective	179,313.2	150,807.9
Legal	42,385.0	44,711.9
State	26,629.4	27,376.8
Finance	13,568.2	14,177.5
Health and Social Services	891,599.4	975,234.3
Children, Youth and Their Families	125,481.8	129,428.9
Correction	243,450.7	254,603.9
Natural Resources and Environmental Control	33,211.8	34,664.1
Safety and Homeland Security	123,915.8	129,432.1
Labor	6,554.5	6,966.9
Agriculture	7,144.8	7,559.5
Elections	3,727.0	3,865.8
Fire	4,598.1	4,806.7
National Guard	4,207.2	4,321.5
Exceptional Citizens	166.3	169.3
Higher Education	212,455.8	213,650.7
Public Education	1,044,165.8	1,098,303.4
STATE TOTAL	\$ 3,305,257.1	\$ 3,432,534.9

*Fiscal Year 2011 includes One-Time Items to be allocated statewide and Fiscal Year 2012 Recommended includes One-Time Items to be allocated statewide.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

	Fiscal Year 2010 Actual	Fiscal Year 2011 Estimated	Fiscal Year 2012 Projected
Revenue	\$ 3,235.1	\$ 3,359.7	\$ 3,455.1
Appropriations			
Budget	3,091.5	3,305.3	3,432.5
Grants	35.4	35.2	35.2
Supplementals			
-enacted		91.0	
-estimated			49.5
Total Appropriations	3,126.9	3,431.5	3,517.3*
Continuing and Encumbered			
Appropriations (prior year)	183.7	184.9	276.6
Total	3,310.6	3,616.4	3,793.9
Less: Continuing & Encumbered			
Appropriations (current year)	(184.9)	(276.6)	(200.0)
Reversions	(49.3)	(40.0)	(10.0)
Total Ordinary Expenditures	3,076.5*	3,299.7*	3,583.9
Balances			
Operating Balance	158.6	60.0	(128.8)
Prior Year Cash Balance	378.5	537.1	597.1
Cumulative Cash Balance	537.1	597.1	468.3
Less: Continuing & Encumbered			
Appropriations (current year)	(184.9)	(276.6)	(200.0)
Reserve	(186.4)	(186.4)	(186.4)
Unencumbered Cash Balance	165.8	134.0*	81.8*
Appropriation Limit			
Cumulative Cash Balance (prior year)	378.5	537.1	597.1
Less: Continuing & Encumbered			
Appropriations (prior year)	(183.7)	(184.9)	(276.6)
Reserve (prior year)	(186.4)	(186.4)	(186.4)
Unencumbered Cash Balance	8.3*	165.8	134.0*
+Net Fiscal Year Revenue	3,235.1	3,359.7	3,455.1
Total (100% Limit)	3,243.4	3,525.5	3,589.1
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	\$ 3,178.5	\$ 3,455.0	\$ 3,517.3

Figures represent DEFAC revenue and expenditure estimates as of the December 20, 2010 meeting, plus Governor's Recommended Revenue 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 2010	Enacted Fiscal Year 2011	Governor's Recommended Fiscal Year 2012
STATE CAPITAL PROJECTS			
General Obligation Bonds	\$ 159,500.0	\$ 166,900.0	\$ 172,755.0
Reversions and Reprogramming	52,100.0	4,858.7	-
General Funds	-	77,000.0	49,536.9
Subtotal (Non-Transportation):	\$ 211,600.0	\$ 248,758.7	\$ 222,291.9
TRANSPORTATION PROJECTS			
Transportation Trust Fund	\$ 35,709.0	\$ 91,921.3	\$ 198,226.9
Transportation Trust Fund - Reauthorization	37,188.0	35,068.9	-
General Funds	-	14,000.0	-
Subtotal (Transportation):	\$ 72,897.0	\$ 140,990.2	\$ 198,226.9
GRAND TOTAL:	\$ 284,497.0	\$ 389,748.9	\$ 420,518.8
DEBT REDUCTION			
Debt Deauthorization	\$ -	\$ -	\$ (18,025.2)