

STATE OF elaware

FISCAL YEAR 2014



January 2013

Governor's Recommended Budget

VOLUME I

Jack A. Markell
GOVERNOR

PRESENTED TO

The 147th

General Assembly

FIRST SESSION

FISCAL YEAR 2014 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 program unit (APU) and internal program unit (IPU) levels.

Volume I of the recommended budget contains the narrative presentation. 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.

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FINANCIAL OVERVIEW

RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2014 Recommended General Fund Operating Budget is \$3,712.0 million. In addition, Governor Markell has set aside \$43.0 million for Grants-in-Aid and \$50.0 million in dedicated cash to the Bond and Capital Improvements Act. Total recommended Fiscal Year 2014 General Fund appropriations are \$3,805.0 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2014 revenue plus projected carryover funds, which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2014 Recommended Bond and Capital Improvements Act totals \$423.5 million. Of this amount, \$239.3 million is recommended for state capital projects and \$184.2 million is recommended for transportation projects. Of the \$239.3 million supporting state projects, \$185.8 million is General Obligation Bond Authorization, \$50.0 million is General Fund cash and \$3.5 million is reprogramming.

Fiscal Year 2014 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates as of December 17, 2012. Governor Markell has recommended adjustments to these figures that will provide a net increase to the DEFAC revenue estimates of \$52.5 million in Fiscal Year 2014. These recommended adjustments are as follows:

- ◆ An increase of \$10.0 million by redirecting Abandoned Property revenue back to the General Fund;
- An increase of \$16.0 million by redirecting Realty Transfer Tax revenue back to the General Fund;
- ◆ An increase of \$1.6 million by redirecting Public Utility Tax revenue back to the General Fund; and
- ♦ An increase of \$24.9 million by adjusting rates on two of the taxes currently scheduled to sunset, Personal Income Tax and Gross Receipts Tax.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC projected net General Fund revenue collections for Fiscal Year 2013 of \$3,736.7 million and \$3,663.3 million for Fiscal Year 2014. 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 0 to 6.75 percent. DEFAC estimates (after refunds) are \$1,107.8 million for

Fiscal Year 2013 and \$1,122.8 million for Fiscal Year 2014.

- ◆ 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 \$768.8 million for Fiscal Year 2013 and \$771.6 million for Fiscal Year 2014.
- ◆ <u>Business</u> and <u>Occupational Gross Receipts Tax</u> This tax is imposed on the gross receipts of most businesses with tax rates ranging from 0.10067 percent to 2.0114 percent, depending upon the category of the business activity. DEFAC estimates are \$227.5 million for Fiscal Year 2013 and \$234.6 million for Fiscal Year 2014.
- ◆ <u>Lottery</u> This category includes video lottery operations, table games, sports betting, as well as traditional lottery sales. DEFAC estimates are \$237.8 million for Fiscal Year 2013 and \$238.1 million for Fiscal Year 2014.
- ◆ 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 \$221.4 million for Fiscal Year 2013 and \$158.4 million for Fiscal Year 2014.
- ◆ 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 \$107.7 million for Fiscal Year 2013 and \$116.8 million for Fiscal Year 2014.
- ◆ <u>Abandoned Property</u> 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 \$566.5 million for Fiscal Year 2013 and \$514.0 million for Fiscal Year 2014.

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 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 2013 and \$44.4 million for Fiscal Year 2014.		
	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 2013 and \$44.4	

GOVERNOR'S BUDGET OVERVIEW

The Fiscal Year 2014 Governor's Recommended Budget reflects the commitment to sound financial principles. These principles include:

- Adhering to constitutional spending limitations by fully funding Delaware's Rainy Day Fund and only appropriating 98 percent of available revenues that have led to our Triple-A bond rating;
- Keeping commitments to core services provided to all Delawareans in the areas of healthcare, public safety and the environment; and
- Investing in the Governor's priorities of job growth, stronger schools and Delaware's youth while driving efficiency in state government.

The Governor's proposed Fiscal Year 2014 Operating Budget totals \$3,712.0 million. This budget, in combination with the Recommended Bond and Capital Improvements Act of \$423.5 million and recommended set aside for Grants-in-Aid of \$43.0 million, is within the constitutionally mandated 98 percent limit on appropriations.

Government Efficiency

The proposed budget continues to hold the line on agency personnel growth. The recommended budget contains 1,085 fewer state agency FTEs compared to the Fiscal Year 2009 budget.

Preserving Jobs

The Recommended Bond and Capital Improvements Act contains several funding initiatives designed to enhance Delaware's economy and generate jobs.

- \$29.0 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. Recent projects supported through Strategic Fund resources include grants to JP Morgan Chase, Amazon, Civil Air Terminal, Ashland, Atlantis Industries, Capital One, Citi and Kraft Foods.
- \$1.0 million for the sixth year of funding for the Experimental Program to Stimulate Competitive Research. These state matching funds leverage \$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 fifth year of a five-year commitment to the IDeA Network of Biomedical Research Excellence program. This program is designed to build a statewide

- infrastructure in facilities for research into cancer, neuroscience and cardiovascular diseases.
- \$3.15 million for the Riverfront Development Corporation.

Investing in Delaware's Schools and in our Youth

The Governor's Recommended Operating Budget and Bond and Capital Improvements Act reaffirm the Governor's commitment to education and providing the needed supports to allow our youth to succeed.

- \$8.8 million to fund salary steps for school and Delaware Technical and Community College employees.
- \$8.8 million to fully fund a projected growth of 110 units for school year 2013-2014.
- \$6.0 million to increase supports for youth which includes the following:
 - \$3.3 million to expand middle school behavior health services;
 - \$2.2 million for targeted prevention services through access to substantive after-school activities; and
 - \$0.5 million for the "Ready by 21" program that provides supports for the basic needs of youth aging out of foster care.
- \$2.3 million for increased projected expenditures for Pupil Transportation.
- \$2.0 million to expand full day kindergarten to the Indian River School District. With this additional funding, all 19 school districts and eligible charter schools will offer full day kindergarten.
- \$0.4 million to increase the per child subsidy for the Early Childhood Assistance Program.
- \$0.3 million to accelerate the development of school safety plans for all schools from five years to two years.
- \$99.0 million for Public Education capital projects. Included is Minor Capital Improvements funding and funding for projects in the Laurel, Woodbridge, Sussex Technical, Polytech, Seaford, Red Clay, Capital and Indian River school districts.
- \$9.6 million for capital projects at Delaware State University, Delaware Technical and Community College and the University of Delaware.

THE DELAWARE BUDGET PROCESS

BUDGET PROCESS AND OUTPUTS

To support a more strategic view, the Governor's Recommended Budget contains Volume I, which includes summary financial data but emphasizes the Governor's policy agenda and a narrative description of agencies and their programs. The format reflects the strategic direction of agencies. An important part of this effort is the requirement that all agencies craft a mission statement, key objectives and accomplishments (past and planned) from which performance can be measured.

All key activities must be identified and systematically analyzed. These activities may be programmatic or administrative in nature.

The departmental sections in Volume I contain:

- Organizational Chart;
- Department Mission and Key Objectives;
- Five-Year Bar Chart of Departmental Budget Act Appropriations;
- Budget and Personnel Charts; and
- Subordinate Organization Mission, Key Objectives, Background and Accomplishments, Activities, Budget and Personnel Chart and Performance Measures.

The *Organizational Chart, Department Mission* and *Key Objectives* are the highest levels of summarization for a department. They present an organizational chart, a broad overview of the department's mission and key objectives and identify significant issues and changes in operating methods. All subordinate organization objectives are derived from and contribute toward departmental objectives.

The *Five-Year Bar Chart of Department Appropriations* provides Budget Act appropriations by funding type (General Fund (GF), Appropriated Special Fund (ASF), etc.) for the previous five fiscal years at a glance.

The *Funding and Position Charts* show by fund type the actual expenditures and positions for the previous fiscal year, the current fiscal year's budget appropriation and positions and the Governor's recommended appropriation and positions for the next fiscal year.

The subordinate organization *Mission, Key Objectives, Background and Accomplishments, Activities, Budget Chart, Personnel Chart* and *Performance Measures* provide the details necessary to understand the programs and services provided by the organization. Also included in Volume I are detailed statewide financial statements.

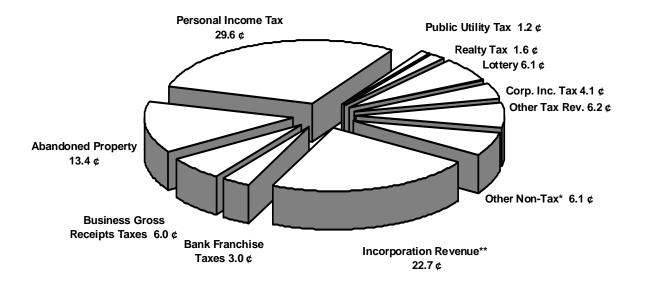
Volume II provides the detailed financial data for each agency, including history, requested funding and recommended funding.

FINANCIAL SUMMARY

BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 2014

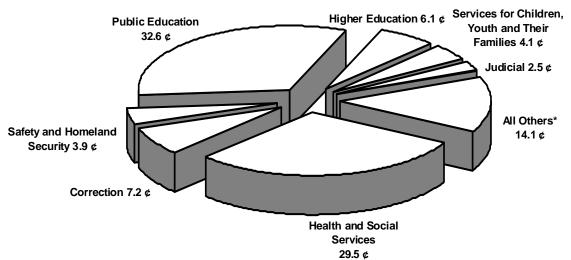
Sources of Funds

(Net of Refunds)



- * Includes Prior Year Unencumbered Cash Balance.
- ** Includes Corporate Franchise Taxes, Business Entity Fees and Limited Partnerships and Limited Liability Companies.

Appropriations



^{*} Includes Contingencies and One-Time Items.

FINANCIAL SUMMARY

ESTIMATED GENERAL FUND REVENUE

The Delaware Economic and Financial Advisory Council (DEFAC), at the December 17, 2012 meeting, adopted a Fiscal Year 2014 revenue estimate of \$3,663.3 million.

(\$ MILLIONS)

Revenue Categories		2012 Actual	F	2013 forecast	F	2014 Forecast
Personal Income Taxes	\$	1,231.7	\$	1,305.3	\$	1,330.2
Corporation Income Taxes		149.0		260.0		199.0
Franchise Taxes		611.8		604.2		598.2
Business and Occupational Gross Receipts Taxes		233.4		227.5		234.6
Hospital Board and Treatment Sales		65.2		58.7		59.3
Dividends and Interest		10.6		9.0		10.0
Public Utility Taxes		45.4		45.0		46.4
Cigarette Taxes		120.8		125.0		120.4
Estate Taxes		12.0		15.0		12.0
Realty Transfer Taxes		31.6		40.4		44.4
Insurance Taxes		63.4		52.1		57.2
Abandoned Property		319.5		566.5		514.0
Business Entity Fees		84.5		88.7		91.4
Bank Franchise Taxes		112.5		107.7		116.8
Lottery Sales		269.0		237.8		238.1
Limited Partnerships and Limited Liability Companies		164.9		175.6		184.4
Uniform Commercial Code		16.7		17.2		17.7
Other Revenue by Department	_	81.7	_	91.0		88.0
Total Receipts	\$	3,623.7	\$	4,026.7	\$	3,962.1
LESS: Revenue Refunds	_	(264.6)	_	(290.0)	_	(298.8)
SUBTOTAL	\$	3,359.3 *	\$	3,736.7	\$	3,663.3
PLUS: Abandoned Property						7.0
Realty Transfer Taxes						16.0
Public Utility Tax						1.6
Sunset Tax Policy					_	27.9
TOTAL					\$	3,715.8

^{*}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 2013		FISCAL YEAR 2014 RECOMMENDED
Legislative	\$	15,092.4	\$	15,292.8
Judicial		91,030.8		93,885.0
Executive		162,996.2 *		137,011.6 *
Technology and Information		37,409.2		38,735.2
Other Elective		150,851.0		170,773.4
Legal		51,687.2		54,285.3
State		24,303.5		24,707.8
Finance		16,536.9		16,417.4
Health and Social Services		1,047,299.5		1,094,774.0
Services for Children, Youth and Their Families		139,966.2		150,660.4
Correction		262,262.5		267,293.9
Natural Resources and Environmental Control		35,457.8		36,238.8
Safety and Homeland Security		136,535.4		145,132.6
Labor		7,960.9		8,292.0
Agriculture		8,429.1		8,465.5
Elections		4,025.7		4,308.7
Fire Prevention Commission		5,084.8		5,241.6
Delaware National Guard		4,489.9		4,666.9
Advisory Council for Exceptional Citizens		177.9		194.8
Higher Education		216,492.7		225,673.0
Education	_	1,168,662.8	•	1,209,946.5
STATE TOTAL	\$ _	3,586,752.4	\$	3,711,997.2

^{*}Fiscal Year 2013 and Fiscal Year 2014 include Contingencies and One-Time Items to be allocated to other departments.

FINANCIAL CHARTS

FISCAL OVERVIEW (\$ Million)

	F	iscal Year 2012 Actual	Fiscal Year 2013 Estimated	Fiscal Year 2014 Estimated
Revenue	\$	3,359.3	\$ 3,736.7	\$ 3,715.8
Appropriations				
Appropriations Budget		3,508.6	3,586.8	3,712.0
Grants		41.2	3,380.8	43.0
Supplementals		41.2	44.2	45.0
Enacted		115.3	53.4	
Estimated		113.3	33.4	50.0
Total Appropriations		3,665.1	3,684.4	3,805.0
Continuing and Encumbered		3,003.1	3,004.4	3,803.0
Appropriations (prior year)		303.7	301.1	295.8
Total	-	3,968.8	3,985.5	4,100.8
Less: Continuing and Encumbered		3,200.0	3,963.3	4,100.8
Appropriations (current year)		(301.1)	(295.8)	(275.0)
Reversions		(75.3)	(50.0)	(10.0)
Total Ordinary Expenditures	-	3,592.4	3,639.7	3,815.8
Balances				
Operating Balance		(233.1)	97.0	(100.0)
Prior Year Cash Balance		797.7	564.6	661.6
Cumulative Cash Balance		564.6	661.6	561.6
Less: Continuing and Encumbered				
Appropriations (current year)		(301.1)	(295.8)	(275.0)
Reserve		(186.4)	(198.9)	(200.7)
Unencumbered Cash Balance		77.1	166.9	85.9
Appropriation Limit				
Cumulative Cash Balance (prior year)		797.7	564.6	661.6
Less: Continuing and Encumbered				
Appropriations (prior year)		(303.7)	(301.1)	(295.8)
Reserve (prior year)		(186.4)	(186.4)	(198.9)
Unencumbered Cash Balance		307.6	77.1	166.9
+Net Fiscal Year Revenue		3,359.3	3,736.7	3,715.8
Total (100% Limit)		3,666.9	3,813.8	3,882.7
X 98% Limit		0.98	0.98	 0.98
APPROPRIATION LIMIT	\$	3,593.6	\$ 3,737.5	\$ 3,805.0

Figures represent DEFAC revenue and expenditure estimates as of the December 17, 2012 meeting, plus Governor's Recommended Revenue Adjustments.

FINANCIAL CHARTS

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

Source	-	Enacted Fiscal Year 2012		Enacted Fiscal Year 2013	<u>-</u>	Governor's Recommended Fiscal Year 2014
STATE CAPITAL PROJECTS						
General Obligation Bonds	\$	171,145.0	\$	184,485.0	\$	185,790.0
Reversions and Reprogramming		3,000.0		17,963.9		3,468.5
One-Time Special Funds		115,000.0		-		-
K-12 Construction Funds		40,000.0		-		-
General Funds		115,311.7		53,426.1		50,000.0
Subtotal (Non-Transportation):	\$	444,456.7	\$	255,875.0	\$	239,258.5
TRANSPORTATION PROJECTS			<u>-</u>		-	
Transportation Trust Fund	\$	219,488.0	\$	173,496.6	\$	184,231.3
Subtotal (Transportation):	\$	219,488.0	\$	173,496.6	\$	184,231.3
GRAND TOTAL:	\$	663,944.7	\$	429,371.6	\$	423,489.8
DEBT REDUCTION						
Debt Deauthorization	\$	(15,025.2)	\$	-	\$	