

STATE OF
Delaware

FISCAL YEAR 2020



***Governor's
Recommended
Budget***

JANUARY 2019

John C. Carney
GOVERNOR

OPERATING BOOK

PRESENTED TO
***The 150th
General Assembly***
FIRST SESSION



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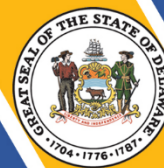
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Financial Overview



RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2020 Recommended General Fund Operating Budget is \$4,433.1 million. In addition, Governor Carney has set aside \$48.4 million for Grants-in-Aid, \$39.1 for the Recommended One-Time Supplemental Appropriations Act, and \$95.0 million in dedicated cash to the Bond and Capital Improvements Act. Total recommended Fiscal Year 2020 General Fund appropriations are \$4,615.6 million. Total appropriations represent 96.1 percent of projected Fiscal Year 2020 revenue (net of refunds) plus projected carryover funds, which is within the constitutionally mandated limitation on appropriations. The Governor has recommended \$92.1 million over and above the constitutionally mandated two percent set-aside remain unappropriated.

The Governor's Fiscal Year 2020 Recommended Bond and Capital Improvements Act totals \$678.6 million. Of this amount, \$345.7 million is recommended for state capital projects and \$332.9 million is recommended for transportation projects. Of the \$345.7 million supporting state projects, \$227.9 million is General Obligation Bond Authorization, \$95.0 million is General Fund cash, and \$22.8 million is reauthorization and reprogramming.

Fiscal Year 2020 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates as of December 19, 2018. Governor Carney has recommended adjustments that will provide a net decrease of \$6.4 million to the Fiscal Year 2020 DEFAC revenue estimates. These recommended adjustments are as follows:

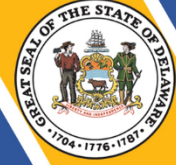
- A decrease of \$5.0 million by reducing the Tax Penalty and Interest to offset a revenue technology project; and
- A decrease of \$1.4 million by reducing the Cigarette Tax revenue to promote a new health initiative.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC projects net General Fund revenue collections for Fiscal Year 2019 of \$4,469.5 million and \$4,563.5 million for Fiscal Year 2020. 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 6.6 percent. DEFAC estimates (after refunds) are \$1,495.8 million for Fiscal Year 2019 and \$1,584.3 million for Fiscal Year 2020.
- **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 \$300. DEFAC estimates (after refunds) for these categories are \$1,178.5 million for Fiscal Year 2019 and \$1,193.7 million for Fiscal Year 2020.
- **Business and Occupational Gross Receipts Tax** - This tax is imposed on the gross receipts of most businesses with tax rates ranging from 0.0945 percent to 1.9914 percent, depending upon

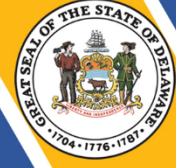
Financial Overview



the category of the business activity. DEFAC estimates are \$258.0 million for Fiscal Year 2019 and \$268.3 million for Fiscal Year 2020.

- **Lottery** - This category includes video lottery operations, table games and sports betting, as well as traditional lottery sales. DEFAC estimates are \$211.1 million for Fiscal Year 2019 and \$203.9 million for Fiscal Year 2020.
- **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 \$102.8 million for Fiscal Year 2019 and \$106.7 million for Fiscal Year 2020.
- **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 \$90.5 million for Fiscal Year 2019 and \$95.8 million for Fiscal Year 2020.
- **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 (after refunds) are \$454.0 million for Fiscal Year 2019 and \$410.0 million for Fiscal Year 2020.
- **Realty Transfer Tax** - The State imposes a tax of 3.0 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 \$154.1 million for Fiscal Year 2019 and \$161.6 million for Fiscal Year 2020.

Governor's Budget Overview



The Governor's proposed Fiscal Year 2020 Operating Budget totals \$4,433.1 million. This budget, in combination with \$95.0 million in dedicated cash for the Recommended Bond and Capital Improvements Act, a \$39.1 million Recommended One-Time Supplemental Appropriations Act and recommended \$48.4 million set aside for Grants-in-Aid, is equal to 96.1 percent of available General Fund revenues. The Governor has recommended that \$92.1 million over and above the constitutionally mandated two percent set-aside remain unappropriated.

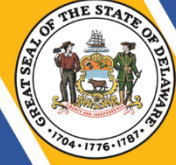
Better Schools for All Children

- \$60.0 million over the next three years for the Opportunity Fund to provide additional resources to low-income students and English Learners. This recommendation is comprised of the following:
 - Base budget funding of \$10.0 million per year, an increase of \$4.0 million for Fiscal Year 2020.
 - One-time supplemental funding of \$30.0 million at \$10.0 million per year over a three-year period. These funds will provide additional support for recipient schools and will have community oversight through a newly designated Wilmington Education Improvement Committee.
- \$19.5 million to fully fund projected Public Education unit growth for the 2019 - 2020 school year.
- \$11.1 million to fund salary steps for Public Education administrators and educators.
- \$3.2 million to fund STARS market rate increase to enhance quality early learning opportunities. Total funding for the STARS program, which provides quality childcare, is \$32.7 million.
- \$1.0 million to provide yearlong residencies to produce and encourage high performing teachers to remain in high-needs schools.
- \$850,000 for the Delaware Literacy Plan which will fund professional development and micro-credential bonuses.
- \$560,000 to provide four additional math coaches for district middle schools. Total funding for this program is \$1.6 million.
- \$500,000 to expand the Educator Loan Forgiveness program for additional candidates. Total funding for this program is \$700,000.
- \$132.5 million for Public Education capital projects including Minor Capital Improvements and funding for projects in the Appoquinimink, Brandywine, Cape Henlopen and Indian River school districts.
- \$5.0 million for school safety and security projects statewide.

A Healthier Delaware

- \$15.0 million for projected Medicaid expenditures.
- \$5.8 million for adult disability provider increases and Purchase of Care provider increases.
- \$3.2 million for the Children's Health Insurance Program to offset the reduction of federal share.

Governor's Budget Overview



Stronger and Safer Communities

- \$20.0 million for Farmland Preservation and Open Space programs.
- \$8.5 million for the sixth year of the statewide Urban Redevelopment initiative. This program provides funding for Downtown Development Districts, designed to promote healthy and vibrant downtowns as critical components of Delaware's economic well-being and quality of life.
- \$6.3 million in matching funds for construction of a new Southern Regional library and for projects at the Seaford, North Wilmington and Rehoboth Beach libraries.
- \$6.0 million to support affordable housing.
- \$3.0 million for the Strong Neighborhoods Housing Fund. The funds are targeted for efforts that support community development and/or transform neighborhoods that are experiencing blight or other forms of stress, including high crime.

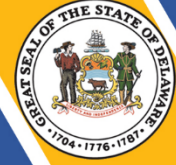
A Strong and Stable State Workforce

- \$34.0 million to support a \$1,000 general salary increase for state agency and public education employees and a 2 percent salary increase for public education administrators and educators.
- \$2.9 million to add 34 new staff members in the Division of Family Services to bolster child welfare investigations.
- \$798,400 to add nine new staff members in the Labor Law Enforcement section and in the Anti-Discrimination section.
- \$10.15 million investment in workplaces including renovations to the Carvel State Office Building, the Jesse Cooper Building, the Leonard L. Williams Justice Center and reducing the deferred maintenance backlog.

A Stronger Economy

- \$12.5 million for the Delaware Strategic Fund. The Fund represents the primary funding source used by the Division of Small Business to provide targeted financial assistance to businesses.
- \$15.0 million for the Higher Education Economic Development Investment Fund which supplements investments that Delaware's institutes of higher education are making to improve job growth and economic development in the State.
- \$10.0 million for the Transportation Infrastructure Investment Fund. The Fund will provide economic assistance for road improvement and related transportation infrastructure in order to attract new businesses to Delaware or for the expansion of existing Delaware businesses.
- \$2.0 million for the Delaware Prosperity Partnership. The Public/Private Partnership focuses on leveraging private resources to improve business recruitment, retention and expansion; identifying and developing a talented workforce; connecting with the global economy; and building a stronger entrepreneurial environment.
- \$2.9 million for the Riverfront Development Corporation to continue development efforts along the Christina River in Wilmington.

Governor's Budget Overview



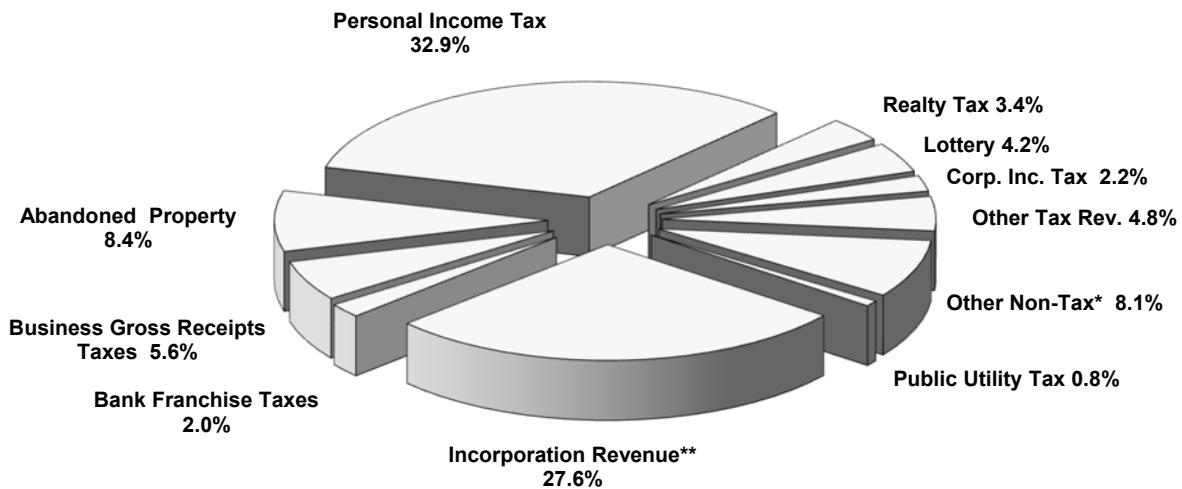
- \$21.0 million for capital projects at Delaware State University, Delaware Technical Community College and the University of Delaware.
- \$2.5 million for the National Institute for Innovation in Manufacturing Biopharmaceuticals. The Institute will focus on bringing safe drugs to market faster and on developing workforce training in biopharmaceuticals.
- \$1.8 million in state match for the Rapid Advancement in Process Intensification Deployment project. Funds will establish a new Manufacturing USA Institute at the University of Delaware that will focus on developing new technologies to boost domestic energy productivity and energy efficiency. The goal is to partner with private businesses to enhance efforts by merging commercial and research capabilities.
- \$1.5 million for the Fraunhofer Center for Molecular Biotechnology vaccine development. This funding is intended to create high-tech, high-impact jobs, spin-off businesses, new partnerships and alliances, and to leverage its unique technologies in the biotech marketplace.
- \$1.0 million for the second year of a five-year commitment to the Center for Clinical and Translational Research initiative. Partner institutions (University of Delaware, Christiana Care and Nemours) will develop new methods to translate research discoveries to community health settings and will leverage \$20.0 million in funding from the National Institutes of Health.
- \$1.0 million for the Bioscience Center for Advanced Technology. The Center fosters academic industry research partnerships to support local bioscience businesses and help Delaware recruit, retain and create science-based jobs.
- \$800,000 for the second year of a five-year commitment for the Experimental Program to Stimulate Competitive Research - Research Infrastructure Improvement initiative. The program provides infrastructure to support research and educational programs for Delaware's water and energy challenges and will leverage \$20.0 million in funding from the National Science Foundation.



GOVERNOR'S RECOMMENDED BUDGET

Fiscal Year 2020

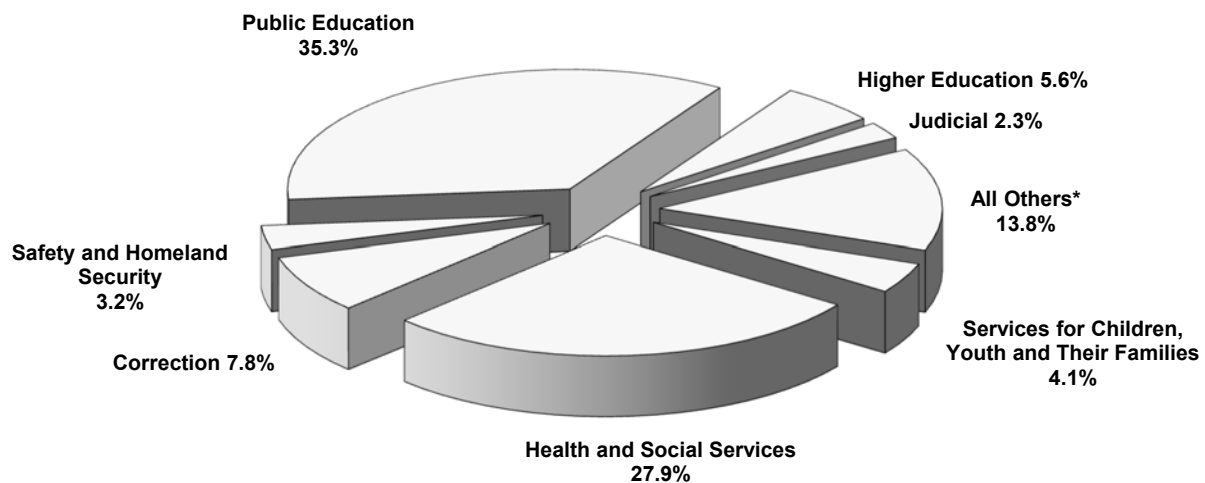
Sources of Funds (Net of Refunds)



* Includes Prior Year Unencumbered Cash Balance.

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

Operating Appropriations



* Includes Contingencies and One-Time Items.

Financial Summary



GENERAL FUND REVENUE

(\$ Millions)

	Fiscal Year 2018 Actual	Fiscal Year 2019 Forecast	Fiscal Year 2020 Forecast
Personal Income Taxes	\$ 1,641.4	\$ 1,724.8	\$ 1,816.7
Corporation Income Taxes	165.1	142.8	163.7
Franchise Taxes	856.7	864.0	865.5
Gross Receipts Tax	245.0	258.0	268.3
Hospital Board and Treatment Sales	38.1	36.8	36.2
Dividends and Interest	11.7	13.3	20.9
Public Utility Taxes	43.1	37.1	36.5
Cigarette Taxes	123.0	126.7	131.1
Realty Transfer Taxes	143.8	154.1	161.6
Insurance Taxes	73.4	78.7	72.1
Abandoned Property	551.7	554.0	510.0
Business Entity Fees	119.0	127.4	130.6
Bank Franchise Taxes	89.2	90.5	95.8
Lottery Sales	212.0	211.1	203.9
Limited Partnerships and Limited Liability Companies	305.1	324.5	338.2
Uniform Commercial Code	23.4	26.6	27.6
Other Revenues	105.5	101.0	103.1
Total Receipts	\$ 4,747.2	\$ 4,871.4	\$ 4,981.8
LESS: Revenue Refunds	(354.2)	(401.9)	(418.3)
SUBTOTAL	\$ 4,393.0	\$ 4,469.5	\$ 4,563.5
ADJUSTMENTS:			
PIT Penalty & Interest			(5.0)
Tobacco Tax			(1.4)
			(6.4)
TOTAL			\$ 4,557.1

* The Delaware Economic and Financial Advisory Council (DEFAC) adopted a Fiscal Year 2020 revenue estimate of \$4,563.5 million at the December 2018 meeting.

Financial Summary



GENERAL FUND BUDGET BY DEPARTMENT (\$ Thousands)

	FISCAL YEAR 2019	FISCAL YEAR 2020 RECOMMENDED
Legislative	\$ 16,676.5	\$ 16,968.5
Judicial	97,363.8	100,645.5
Executive*	178,032.9	163,302.7
Technology and Information	42,419.6	42,996.0
Other Elective	189,342.4	191,258.1
Legal	61,625.8	64,172.2
Human Resources	13,099.5	15,041.5
State	25,206.3	25,983.8
Finance	14,407.6	14,392.0
Health and Social Services	1,196,759.2	1,238,781.3
Services for Children, Youth and Their Families	174,470.5	182,466.0
Correction	328,405.3	344,578.1
Natural Resources and Environmental Control	37,551.4	38,591.1
Safety and Homeland Security	137,527.1	143,758.0
Transportation	5,000.0	5,000.0
Labor	9,543.3	10,486.0
Agriculture	8,325.6	8,421.8
Elections	5,174.3	6,551.3
Fire Prevention Commission	5,341.2	5,518.3
Delaware National Guard	4,825.6	4,880.1
Advisory Council for Exceptional Citizens	247.5	261.4
Higher Education	237,443.8	246,093.7
Education	1,481,992.2	1,562,923.7
TOTAL	\$ 4,270,781.4	\$ 4,433,071.1

*Include Contingencies and One-Time Items to be allocated to other departments.

Financial Summary



FISCAL OVERVIEW (\$ Millions)

	Fiscal Year 2018 Actual	Fiscal Year 2019 Estimated	Fiscal Year 2020 Estimated
Revenue	\$ 4,393.0	\$ 4,469.5	\$ 4,557.1
Appropriations			
Operating Budget	4,106.9	4,270.8	4,433.1
Grants-In-Aid	37.3	52.1	48.4
Supplemental	-	49.2	39.1
General Funds to Capital	-	189.0	95.0
Total Appropriations	4,144.2	4,561.1	4,615.6
Continuing and Encumbered			
Appropriations (prior year)	178.6	184.1	282.9
Total	4,322.8	4,745.2	4,898.5
Less: Continuing and Encumbered			
Appropriations (current year)	(184.1)	(282.9)	(225.0)
Reversions	(20.6)	(13.0)	(10.0)
Total Ordinary Expenditures	4,118.1	4,449.3	4,663.5
Balances			
Operating Balance	274.9	20.2	(106.5)
Prior Year Cash Balance	474.9	749.8	770.0
Cumulative Cash Balance	749.8	770.0	663.5
Less: Continuing and Encumbered			
Appropriations (current year)	(184.1)	(282.9)	(225.0)
Reserve	(231.6)	(240.4)	(249.1)
Unencumbered Cash Balance	334.1	246.7	189.4
Appropriation Limit			
Cumulative Cash Balance (prior year)	474.9	749.8	770.0
Less: Continuing and Encumbered			
Appropriations (prior year)	(178.6)	(184.1)	(282.9)
Reserve (prior year)	(221.1)	(231.6)	(240.4)
Unencumbered Cash Balance	75.2	334.1	246.7
Net Fiscal Year Revenue	4,393.0	4,469.5	4,557.1
Total (100% Limit)	4,468.2	4,803.6	4,803.8
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	\$ 4,378.8	\$ 4,707.5	\$ 4,707.7

Figures represent DEFAC revenue and expenditure estimates as of the December 2018 meeting plus Governor's Recommended Revenue Adjustments.

Financial Summary



BOND AND CAPITAL IMPROVEMENTS FUNDING SOURCES

Source	Fiscal Year 2018	Fiscal Year 2019	Governor's Recommended Fiscal Year 2020
STATE CAPITAL PROJECTS			
General Obligation Bonds	\$ 207,290.0	\$ 218,095.0	\$ 227,850.0
Reauthorization and Reprogramming	61,408.6	38,998.1	22,800.0
One-Time Special Funds	3,568.5	1,919.0	-
General Funds	-	188,959.3	95,034.8
Subtotal	\$ 272,267.1	\$ 447,971.4	\$ 345,684.8
TRANSPORTATION PROJECTS			
Transportation Trust Fund	\$ 317,750.5	\$ 368,362.3	\$ 332,934.9
GRAND TOTAL	\$ <u>590,017.6</u>	\$ <u>816,333.7</u>	\$ <u>678,619.7</u>