STATE OF

Delaware

FISCAL YEAR 2018

Governor's Recommended Budget

OPERATING BOOK

JANUARY 2017

Jack A. Markell

GOVERNOR

PRESENTED TO
The 149th
General Assembly
FIRST SESSION

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RECOMMENDED APPROPRIATIONS

The Governor's Fiscal Year 2018 Recommended General Fund Operating Budget is $4,128.4 million. In addition, Governor Markell has set aside $33.0 million for Grants-in-Aid and $17.0 million in dedicated cash to the Bond and Capital Improvements Act. Total recommended Fiscal Year 2018 General Fund appropriations are $4,178.4 million. Total appropriations represent 98.0 percent of projected net Fiscal Year 2018 revenue plus projected carryover funds, which is within the constitutionally mandated limitation on appropriations.

The Governor's Fiscal Year 2018 Recommended Bond and Capital Improvements Act totals $555.3 million. Of this amount, $270.5 million is recommended for state capital projects and $284.7 million is recommended for transportation projects. Of the $270.5 million supporting state projects, $211.8 million is General Obligation Bond Authorization, $17.0 million is General Fund cash and $41.8 million is reprogramming.

Fiscal Year 2018 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) revenue and expenditure estimates as of December 19, 2016. Governor Markell has recommended adjustments to these figures that will provide a net increase to the DEFAC revenue estimates of $212.2 million in Fiscal Year 2018. These recommended adjustments are as follows:

- ♦ An increase of $55.0 million by redirecting Realty Transfer Tax revenue back to the General Fund and increasing the state assessment rate;
- ♦ An increase of $5.0 million by redirecting Public Utility Tax revenue back to the General Fund;
- ♦ An increase of $135.0 million for inflationary adjustments to Corporate Franchise Tax and establishing a new top rate;
- ♦ An increase of $28.0 million by adjusting the top rate to Personal Income Tax, eliminating itemized deductions and increasing the standard deduction; and
- ♦ An increase of $18.6 million by changing the Cigarette tax.

DEFAC GENERAL FUND REVENUE FORECASTS

DEFAC projected net General Fund revenue collections for Fiscal Year 2017 of $3,978.8 million and $3,995.8 million for Fiscal Year 2018. 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 $1,332.0 million for Fiscal Year 2017 and $1,389.5 million for Fiscal Year 2018.
- ♦ **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 $975.0 million for Fiscal Year 2017 and $992.6 million for Fiscal Year 2018.
- ♦ **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 the category of the business activity. DEFAC estimates are $242.0 million for Fiscal Year 2017 and $248.0 million for Fiscal Year 2018.
- ♦ **Lottery** - This category includes video lottery operations, table games and sports betting, as

well as traditional lottery sales. DEFAC estimates are $205.0 million for Fiscal Year 2017 and $204.3 million for Fiscal Year 2018.

- **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 $122.0 million for Fiscal Year 2017 and $123.5 million for Fiscal Year 2018.

- **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 $77.3 million for Fiscal Year 2017 and $87.0 million for Fiscal Year 2018.

- **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 $554.0 million for Fiscal Year 2017 and $490.0 million for Fiscal Year 2018.

- **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 $93.0 million for Fiscal Year 2017 and $82.2 million for Fiscal Year 2018.

GOVERNOR'S BUDGET OVERVIEW

The Governor's proposed Fiscal Year 2018 Operating Budget totals $4,128.4 million. This budget, in combination with the Recommended Bond and Capital Improvements Act of $555.3 million and recommended set aside for Grants-in-Aid of $33.0 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. There are 1,111 fewer state agency positions in Fiscal Year 2017 as compared to Fiscal Year 2009.

Job Creation, Retention and Economic Growth

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

- $10.0 million for the Delaware Strategic Fund. The Delaware Strategic Fund represents the primary funding source used by the Delaware Economic Development Office to provide targeted financial assistance to businesses.
- $8.5 million for the fourth year of the statewide Urban Redevelopment initiative. This initiative will strengthen and enhance downtown areas by incentivizing rehabilitation and construction in designated Downtown Development Districts in amounts not to exceed 20 percent of the total project cost. In addition, up to $1.0 million of this funding may be used for local small grants.
- $15.0 million for container cranes and infrastructure improvements at the Diamond State Port Corporation.
- $2.9 million for the Riverfront Development Corporation to continue development efforts along the Christina River in Wilmington.
- $2.5 million for the National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL). The institute will focus on bringing safe drugs to market faster and on developing workforce training in biopharmaceuticals.
- $1.5 million for the Fraunhofer Center for Molecular Biotechnology (CMB) Vaccine Development. This 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 for the final year of a five-year commitment to the Center for Clinical and Translational Research (DE-CTR) initiative. DE-CTR will enable partner institutions (University of Delaware, Christiana Care and Nemours) to 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 in state match for the fourth year of a five-year commitment to the IDeA Network of Biomedical Research Excellence program. This program is designed to build a statewide infrastructure for research into cancer, neuroscience and cardiovascular diseases.
- $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 final year of a five-year commitment for the Experimental Program to Stimulate Competitive Research - Research Infrastructure Improvement (EPSCoR-RII) initiative. EPSCoR-RII 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.

Investing in Delaware's Schools and Youth

- $28.4 million to fully fund projected Public Education unit growth.
- $8.0 million to strengthen Delaware's Early Education system through continued funding initiatives established through the federal Early Learning Challenge grant.
- $9.6 million to fund salary steps for public education and Delaware Technical Community College employees.

- $7.5 million to support recommendations of the Wilmington Education Improvement Commission.
- $412,000 for projected expenditures in the Academic Excellence appropriation to account for unit growth.
- $120.1 million for Public Education capital projects. Included is Minor Capital Improvements funding and funding for projects in the Brandywine, Caesar Rodney, Cape Henlopen, Christina and New Castle County Vo-Tech school districts, in addition to a $20.5 million contingency for pending referenda projects.
- $16.5 million for capital projects at Delaware State University, Delaware Technical Community College and the University of Delaware.

Health and Self Sufficiency for Delawareans

- $13.3 million for the State's share of the Medicaid program.
- $9.6 million for the Housing Development Fund (HDF). The HDF provides affordable, decent, safe and sanitary housing to responsible, low and moderate income households.
- $2.0 million for Substance Use Disorder Services which includes $715,000 for day programming, $650,000 for an Assertive Community Treatment team, and $650,000 for additional sober living residential beds.
- $2.8 million for projected growth in the Child Care Purchase of Care program.
- $923,000 for growth in the Birth to Three program.

Enhancing our Quality of Life

- $5.7 million in matching funds for projects in the Duck Creek, Selbyville, Harrington, Delmar, Millsboro and Rt. 9/13 Garfield Park libraries.
- $2.5 million for Statewide Trails and Pathways. Funding will continue the initiative to provide an interconnected network of shared-use pathways and trails that will support non-motorized travel and recreational trail opportunities.
- $4.8 million for the continued redevelopment of the NVF site in Yorklyn and the Ft. DuPont site in Delaware City.
- $1.8 million for the Drinking Water State Revolving Fund. This program makes funds available to finance infrastructure improvements of local drinking water systems.
- $1.4 million in matching funds for the Clean Water State Revolving Fund. This program provides assistance in the form of low-interest loans and grants for water quality projects, as well as municipal wastewater treatment projects.

Ensuring Public Safety

- $12.8 million for the construction of a new Troop 7 in eastern Sussex County.
- $6.35 million for the second year funding for 800 MHz communications system improvements. The funding will support an upgrade of the infrastructure to the national P-25 interoperability standard while also replacing transmitters, microwave and older end-user portable and mobile radio equipment.

THE DELAWARE BUDGET PROCESS

BUDGET PROCESS AND OUTPUTS

To support a more strategic view, the Governor's Recommended Budget Operating Book contains the following:

- Summary financial data;
- Narrative descriptions;
- Five-year bar chart of agency appropriations;
- Prior year pie chart of agency expenditures;
- Links to agency websites;
- Organizational chart;
- Agency performance metrics;
- Detailed financial data for each agency; and
- Statewide financial statements.

The narrative descriptions contain an at a glance section and overview section, intended to provide a broad synopsis of the agency and relevant information on subordinate divisions.

The five-year bar chart of agency appropriations provides Budget Act appropriations by fund type General Fund (GF), Appropriated Special Fund (ASF) and Transportation Trust Fund Operating (TFO) for the previous five fiscal years.

The prior year pie chart of agency expenditures provides an overview of agency expenditures by appropriation, as of the prior year fiscal year-end.

The links to the agency websites provides active web links to each agency's website to obtain additional information related to each agency, such as mission, key objectives, background and accomplishments, etc.

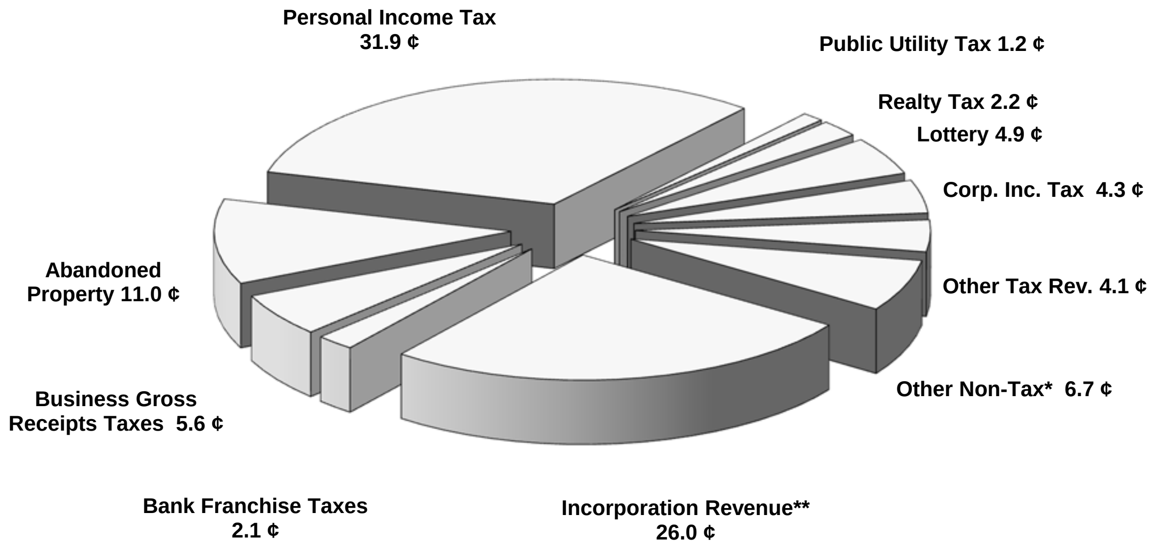
The organizational chart is the highest level summarization for an individual agency.

The agency performance metrics provide the details necessary to understand the programs and services provided by each agency.

The detailed financial data for each agency provides the relevant financial data for each agency, including prior year history, requested funding and recommended funding.

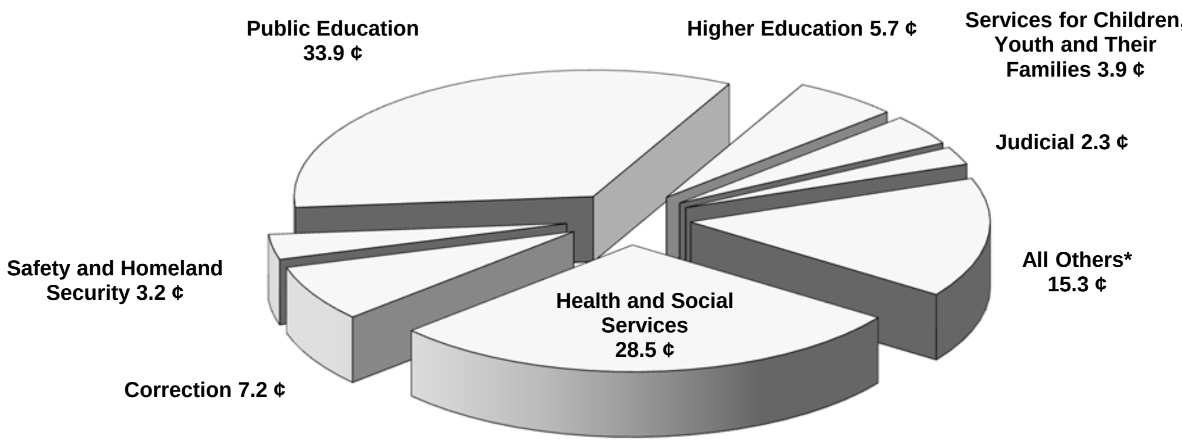
BUDGET DOLLAR
GOVERNOR'S RECOMMENDED BUDGET
Fiscal Year 2018

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.

ESTIMATED GENERAL FUND REVENUE

($ Millions)

The Delaware Economic and Financial Advisory Council (DEFAC), at the December 19, 2016 meeting, adopted a Fiscal Year 2018 revenue estimate of $3,995.8 million.

Revenue Categories	2016 Actual	2017 Forecast	2018 Forecast
Personal Income Taxes	$ 1,496.9	$ 1,547.0	$ 1,614.8
Corporation Income Taxes	224.6	172.0	167.0
Franchise Taxes	707.7	704.1	707.7
Gross Receipts Tax	234.1	242.0	248.0
Hospital Board and Treatment Sales	48.4	44.0	44.9
Dividends and Interest	3.1	6.9	9.4
Public Utility Taxes	45.0	44.0	40.1
Cigarette Taxes	111.8	108.4	106.8
Estate Taxes	9.3	5.0	5.0
Realty Transfer Taxes	89.5	93.0	82.2
Insurance Taxes	53.7	51.2	52.8
Abandoned Property	528.3	554.0	490.0
Business Entity Fees	104.8	106.9	109.1
Bank Franchise Taxes	92.5	77.3	87.0
Lottery Sales	211.0	205.0	204.3
Limited Partnerships and Limited Liability Companies	268.8	280.9	294.9
Uniform Commercial Code	19.3	19.3	19.3
Other Revenue by Department	93.2	105.6	105.1
Total Receipts	$ $4,342.0	$ 4,366.6	$ 4,388.4
LESS: Revenue Refunds	(397.2)	(387.8)	(392.6)
SUBTOTAL	$ 3,944.8	$ 3,978.8	$ 3,995.8
PLUS: Franchise Tax			135.0
Realty Transfer Tax			55.0
Personal Income Tax			28.0
Cigarette Tax			18.6
Public Utility Tax			5.0
TOTAL			**$ 4,237.4**

FINANCIAL SUMMARY

GENERAL FUND BUDGET
BY DEPARTMENT
BY FISCAL YEAR
($ Thousands)

	FISCAL YEAR 2017	FISCAL YEAR 2018 RECOMMENDED
Legislative	$ 16,090.3	$ 16,323.6
Judicial	96,381.0	98,430.4
Executive	184,771.8 *	94,781.6 *
Technology and Information	41,153.5	42,285.6
Other Elective	184,202.1	194,104.1
Legal	58,753.2	60,159.6
State	25,111.7	24,835.3
Finance	14,626.6	14,602.0
Health and Social Services	1,183,846.3	1,200,816.2
Services for Children, Youth and Their Families	159,029.7	162,913.4
Correction	295,388.1	310,351.8
Natural Resources and Environmental Control	38,023.8	38,052.9
Safety and Homeland Security	134,003.6	136,634.3
Transportation	5,000.0	4,500.0
Labor	9,838.3	9,700.5
Agriculture	8,583.7	8,499.5
Elections	4,510.6	5,022.5
Fire Prevention Commission	5,541.1	5,607.4
Delaware National Guard	4,867.4	4,808.6
Advisory Council for Exceptional Citizens	242.0	257.7
Higher Education	234,443.4	238,199.6
Education	1,379,643.5	1,457,480.4
STATE TOTAL	**$ 4,084,051.7**	**$ 4,128,367.0**

*Fiscal Year 2017 and Fiscal Year 2018 Recommended include Contingencies and One-Time Items to be allocated to other departments.

FISCAL OVERVIEW

($ Millions)

	Fiscal Year 2016 Actual	Fiscal Year 2017 Estimated	Fiscal Year 2018 Estimated
Revenue	$ 3,944.8	$ 3,978.8	$ 4,237.4
Appropriations			
Budget	3,908.5	4,084.1	4,128.4
Grants	43.0	45.9	33.0
Supplementals		.2	
Enacted	-	12.6	-
Estimated	-	-	17.0
Total Appropriations	3,951.5	4,142.8	4,178.4
Continuing and Encumbered Appropriations (prior year)	201.3	181.5	209.6
Total	4,152.8	4,324.3	4,388.0
Less: Continuing and Encumbered Appropriations (current year)	(181.5)	(209.6)	(200.0)
Reversions	(57.5)	(25.0)	(20.0)
Total Ordinary Expenditures	3,913.7*	4,089.7	4,168.0
Balances			
Operating Balance	31.1	(110.9)	69.4
Prior Year Cash Balance	536.9	568.0	457.0
Cumulative Cash Balance	568.0	457.0*	526.4
Less: Continuing and Encumbered Appropriations (current year)	(181.5)	(209.6)	(200.0)
Reserve	(214.8)	(221.1)	(231.5)
Unencumbered Cash Balance	171.7	26.3	94.9
Appropriation Limit			
Cumulative Cash Balance (prior year)	536.9	568.0	457.0
Less: Continuing and Encumbered Appropriations (prior year)	(201.3)	(181.5)	(209.6)
Reserve (prior year)	(212.5)	(214.8)	(221.1)
Unencumbered Cash Balance	123.1	171.7	26.3
+Net Fiscal Year Revenue	3,944.8	3,978.8	4,237.4
Total (100% Limit)	4,067.9	4,150.5	4,263.7
X 98% Limit	0.98	0.98	0.98
APPROPRIATION LIMIT	**$ 3,986.5**	**$ 4,067.4**	**$ 4,178.4**

Figures represent DEFAC revenue and expenditure estimates as of the December 19, 2016 meeting, plus Governor's Recommended Revenue Adjustments.

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

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

Source		Enacted Fiscal Year 2016		Enacted Fiscal Year 2017		Governor's Recommended Fiscal Year 2018
STATE CAPITAL PROJECTS						
General Obligation Bonds	$	196,960.0	$	202,420.0	$	211,750.0
Reversions and Reprogramming		34,983.6		21,211.5		16,788.0
One-Time Special Funds		15,042.8		-		25,000.0
General Funds				12,653.7		16,982.5
Subtotal (Non-Transportation):	$	265,958.7	$	236,285.3*	$	270,520.5
TRANSPORTATION PROJECTS						
Transportation Trust Fund	$	209,321.2	$	265,147.7	$	284,748.7
Subtotal (Transportation):	$	209,321.2	$	265,147.7	$	284,748.7
GRAND TOTAL:	**$**	**456,307.6**	**$**	**501,433.0**	**$**	**555,269.2**

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