

## Chapter 7: FINANCING STATE GOVERNMENT

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Delaware's financial activity is unique among states in the northeast megalopolis region. Because of its comparatively small population and size, many government services (e.g. corrections, health and social services, some road maintenance), which in other states are handled totally or partially at the local level, are provided and financed at the state level. Local governments - counties and municipalities - are thereby relieved to some extent of the collecting and disbursing of revenue to provide services.

### State Budget Process

Delaware's fiscal year runs from July 1<sup>st</sup> through June 30<sup>th</sup> of the following calendar year. Like many states, Delaware begins the state budget process for the next fiscal year shortly after the current fiscal year begins. General parameters regarding budgetary goals are communicated from the Office of Management and Budget (OMB), part of the executive branch. State-financed departments and agencies project their needs for the coming fiscal year and submit those estimates to OMB. Public hearings are then conducted by OMB, usually in late October and November, to review each agency's requests. Following the hearings, operating and capital budgets are developed by the administration. The Governor gives the budget address to the General Assembly sometime in late January. The operating portion is then introduced as the budget bill and is assigned to the Joint Finance Committee (JFC) for review. The capital portion becomes the Bond bill.

### Budget Bill

The General Assembly convenes annually on the second Tuesday in January and meets for several weeks before adjourning while the JFC holds public budget hearings in February and early March. The JFC consists of the members of the Senate Finance and the House Appropriations Committees and is staffed by the Controller General's Office, an arm of the legislature. The department heads again explain their financial needs but the focus is on the budget agreed upon with the administration and does not necessarily mirror the original requests. After the hearings, the JFC schedules "mark-up" sessions, usually in late May or early June, in which it develops an operating budget that is further refined in consultation with legislative leadership and the administration before being presented to the entire General Assembly for adoption. The "mark-up" sessions have not been open to the public. The budget is usually not adopted until the final week of the legislative session which ends June 30. It then goes to the governor to be signed or vetoed.

The state budget as drafted by the General Assembly is a "line item" budget in that it is broken down into specific amounts for each of several categories (e.g., personnel costs, travel, supplies, etc.) for each functional group within an appropriation unit or division. Although rarely used, the governor has the power to "line item veto" individual appropriations. An item so vetoed must go back to the legislature for override in order to be in the final approved budget.

During the entire process, attention is paid to estimates presented by the Delaware Economic and Financial Advisory Council (DEFAC). This is a high level council with members from the legislature, administration, business and economists from academia. It is their duty to prepare estimates of General Fund revenues and expenses for the current and next fiscal years and to submit reports no later than the 25<sup>th</sup> of September, December, March, April and May and the

20<sup>th</sup> of June. The governor submits these reports to the legislature. The June 20<sup>th</sup> report, made official by Resolution of the General Assembly becomes the basis for the final budget which must be adopted by June 30.

Passage by the legislature and signing by the governor constitutes both final authorization and appropriation. At all stages of consideration, the budget must be balanced, with expenditures not exceeding anticipated revenue. Constitutional provisions limit spending to 98% of estimated available revenue (except for emergency appropriations) and require a three-fifths vote for passage of any new tax laws.

### **Bond Bill**

Long term Capital Improvements Program projects are authorized in the Bond Bill, so named because it authorizes the sale of general obligation and revenue bonds. (See below under Financing the Capital Improvement Program). This provides the largest portion of the required funds, although some general funds and other special funds are also used. While the original proposal is presented by the governor, the bill that is finally sent to the legislature is the result of work by the Joint Bond Bill Committee, usually after intense negotiations with the governor's office. The committee, which consists of members of the House Capital Infrastructure and the Senate Bond Bill committees, meets after the JFC has completed most of its deliberations. Public testimony is solicited.

### **Grants in Aid**

During the budget process some money is also set aside for grants to support specific projects that the legislature considers of value to the state. A formula is used to set aside portions for senior centers, fire companies and veterans' groups, but approximately half the total is allocated to social service and cultural organizations. Agencies requesting funds are required to submit detailed applications and financial data. They are subject to performance audits by the Controller General's office.

### **State Operating Budget**

The state operating budget consists of two funds: the General Fund and the Special Fund. The

**General Fund** refers to those resources (and transactions of such resources), which are used for the general operation of services traditionally provided by state government. Its disbursements are at the discretion of the General Assembly, and its receipts are a result of actions by the General Assembly in enacting taxes, fees, etc.

**Special Fund** refers to those resources (and the transactions of such resources), which are obtained from specific revenue sources and are used for the general operation of these restricted and specified government services

### **GENERAL FUND RECEIPTS FY 2007**

#### **Major GF Receipts Category**

	<u>\$00 0's</u>	<u>%</u>
Taxes (net of refunds)	2,787,251.0	84.8
Fees	109,386.0	3.3
Rental and Sales	320,475.8	9.7
State Gov't/Agency Revenue	22,901.8	0.7

Earnings and Investments	25,265.7	0.8
*Other	24,931.8	0.7
<b>Total</b>	<b><u>3,290,212.1</u></b>	<b><u>100.0</u></b>

\*Other – Licenses, Permits, Fines, Government Contributions

As might be expected, taxes make up the largest single source of revenue. Within this single revenue source are various types of taxes as shown by the following table.

#### **GENERAL FUND TAX REVENUE FY 2007**

	<u>\$00 0's</u>	<u>%</u>
Personal Income	1,022,056.3	36.7
Corporate Income	126,533.7	4.5
Franchise	530,580.5	19.0
Business & Occupational	155,516.2	5.6
Public Utilities	46,155.6	1.7
Cigarette	88,288.7	3.2
Inheritance & Estate	366.4	0.0
Realty Transfer	90,933.5	3.3
Insurance	82,925.0	3.0
Bank Franchise Tax	174,990.5	6.3
Abandoned Property	354,789.8	12.7
Miscellaneous Taxes	114,114.8	4.0
<b>Total Taxes</b>	<b><u>\$2,787,251.0</u></b>	<b><u>100.0</u></b>

#### **GENERAL FUND DISBURSEMENTS FY 2007**

	<u>\$00 0's</u>	<u>%</u>
Judicial	89,391.0	2.6
Executive	275,008.3	8.1
Technology and Information	37,646.8	1.1
Other Elective Office	56,542.1	1.7
Legal	41,614.2	1.2
Finance	45,627.5	1.3
Health & Social Services	852,546.2	25.1
Services for Children, Youth & their Families	131,659.7	3.9
Correction	252,143.3	7.4
Natural Resources & Environmental Control	70,494.9	2.1
Safety and Homeland Security	120,875.2	3.6
Higher Education	253,820.4	7.5
Public Education	1,088,656.9	32.2
*Other	73,868.9	2.2
<b>Total Disbursements</b>	<b><u>\$3,389,895.4</u></b>	<b><u>100.0</u></b>

\*Other - Legislative, State, Finance, Labor, Agriculture, Elections, Fire Prevention Comm., DE National Guard and Advisory Council for Exceptional Citizen

**SPECIAL FUND RECEIPTS FY 2007**

	<u>\$00 0's</u>	<u>%</u>
Judicial	19,749.2	0.4
Executive	1,389,882.5	31.5
Technology and Information	20,677.7	0.5
Other Elective	348,840.5	7.9
State	58,807.2	1.3
Finance	106,633.0	2.4
Health and Social Services	790,453.6	17.9
Services for Children, Youth And Their Families	39,050.1	0.9
Natural Resources and Environmental Control	129,487.4	2.9
Safety and Homeland Security	49,959.0	1.1
Transportation	551,382.7	12.4
Labor	58,747.8	1.3
Agriculture	93,712.8	2.1
Higher Education	98,481.8	2.2
Public Education	647,198.8	14.6
Other	26,940.9	0.6
<b>Total Receipts</b>	<b><u>\$4,430,005.0</u></b>	<b><u>100</u></b>

Federal Grants and Reimbursements are dedicated to particular programs or uses (e.g., community health, public welfare, highway projects, grants to higher education). Non-revenue and transfer receipts include revenue from bond sales and federal unemployment insurance.

**SPECIAL FUND DISBURSEMENTS FY 2007**

	<u>\$00 0's</u>	<u>%</u>
Executive	1,318,343.2	28.9
Technology and Information	21,589.4	0.5
Other Elective Offices	353,688.9	7.8
Finance	91,611.9	2.0
Health & Social Services	795,118.5	17.4
Services for Children, Youth & their Families	45,154.3	1.0
Natural Resources & Environmental Control	145,211.9	3.2
Labor	59,132.6	1.3
Agriculture	98,209.6	2.2
Higher Education	106,779.4	2.3
Public Education	827,273.2	18.2
*Other	695,620.7	15.2
<b>Total Disbursements</b>	<b><u>\$4,557,733.6</u></b>	<b><u>100.0</u></b>

\*Other – Judicial, Legal, State, Correction, Safety and Homeland Security, Fire, National Guard  
The preceding tables indicate that the state is heavily involved in educational financing. Public schools receive approximately 67% of their funds from state appropriations, 28% from local district appropriations, and 5% from federal appropriations. This ratio varies from one district to another according to need or ability and desire to supplement locally.

Temporary Assistance for Needy Families (TANF) and Medicaid costs in Delaware are paid by the state general funds and from dedicated federal funds. Residential facilities for the mentally ill, the mentally retarded, the aged, as well as a psychiatric center for children and juvenile corrections facilities are all financed by the state. These comprise a substantial portion of the Health and Social Services and Department of Services for Children, Youth and Their Families budgets.

The Transportation Trust Fund was established in 1987 to facilitate the development of a unified transportation system and to receive dedicated transportation related revenues. The receipts in the Trust Fund are motor fuel taxes, motor vehicle documents fees and other transportation related revenues which have been dedicated to that fund. City streets are paid by municipal and state funds. The Trust Fund provides several million dollars per year to the municipalities to aid in their street maintenance. There are no county road systems.

Higher education costs include support for the University of Delaware, Delaware State University and Delaware Technical and Community College.

### **Financing the Capital Improvement Program (Bond Bill)**

Capital programs in Delaware which benefit a large number of citizens, such as schools, roads, prisons, parks, and state office buildings and facilities, are usually financed by the sale of tax exempt bonds. (The interest paid to investors who own state bonds is exempt from federal, state and local taxes.) Bonds are issued with ten- or twenty-year maturities, depending on the life of the project, and allow the cost of the capital project to be paid over the useful life of that project.

Delaware currently issues two different types of bonds: general obligation and revenue bonds. General obligation bonds are the cheapest form of finance capital available to the state since they are backed by the full faith and credit of the state, in which the state promises to repay the bonds as scheduled from the first revenues it receives. The rating agencies evaluate economic, fiscal and administrative factors of the state and assign a rating of the state's bonds based upon the perceived willingness and ability of the state to repay its debts as promised.

Delaware is one of only seven states to hold the nation's highest bond ratings –Aaa from Moody's Investment Service, AAA from Fitch Ratings and AAA from Standard & Poor's. These ratings signify Delaware's place among the most creditworthy states in the nation.

Authorization of General Obligation debt is limited to either 5% of projected net revenue or 15% of cumulative cash balance.

Revenue bonds are backed solely by a pledge of specified revenues and are usually issued by an authority of the state. For example, the Delaware Transportation Authority issues revenue bonds for transportation-related projects. These bonds are supported by a pledge of

Transportation Trust Fund revenue, including motor fuel taxes, motor vehicle document fees, motor vehicle registration fees and turnpike tolls and concession revenue. The other debt issuing authorities in the state include the Delaware State Housing Authority, the Delaware Solid Waste Authority, the Delaware Health Facilities Authority, the Delaware River and Bay Authority, and the Delaware Economic Development Authority. The bonds of these authorities generally do not have recourse to the state or its general fund revenue in the event of default by the issuing authority.