

FINANCIAL OPERATIONS

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council ("DEFAC"), created in 1977, is comprised currently of 34 members appointed by the Governor from the executive and legislative branches of State government and the private sector.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly revenue forecasts for the budgetary General Fund and Transportation Trust Fund six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June. Certain budgetary appropriated and non-appropriated Special Funds (i.e., certain user fees and federal funds) are not forecasted through this process. As transportation is a major part of the State's operating and capital budgets, DEFAC forecasts the revenues and expenditures of the Transportation Trust Fund along with those of the budgetary General Fund.

DEFAC relies on projections of national economic trends, an external econometric model, projections developed by the State's Departments of Finance, State, and Transportation, its members' knowledge of the State's particular economic strengths and weaknesses, and its members' understanding of the structure of the State's revenue system.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

Revenue

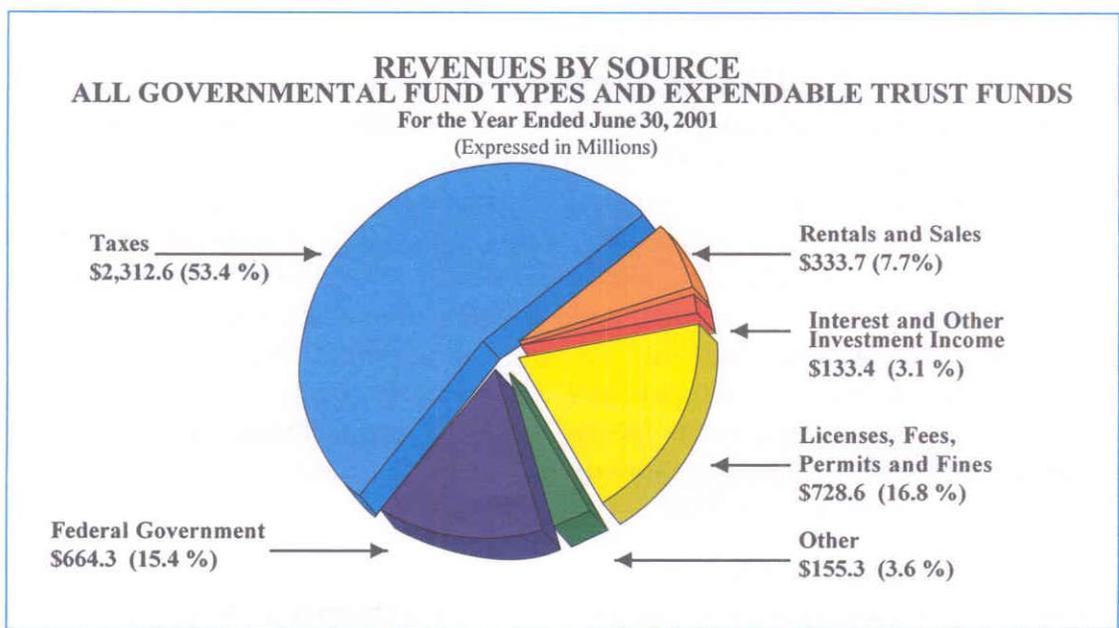
Total State revenues for all governmental fund types and expendable trust funds were \$4.3 billion in fiscal 2001, an increase of 2.8% over 2000. Of this amount, budgetary General Fund revenues totaled \$2.3 billion, an increase of 2.2% over fiscal 2000.

The principal source of State budgetary General Fund revenue is taxes, representing 53.4% of State revenue collections. The increase of 4.4% over fiscal 2000 reflects strong economic activity across all major sectors. Personal income taxes net of refunds totaled \$718.3 million in fiscal 2001, a slight decrease from fiscal 2000 due to a reduction in tax rates, an increase in the standard deduction and pension income exclusion. On an adjusted basis, net personal income tax receipts grew by 5.3%. The State levies a personal income tax on taxable income ranging from a zero bracket on the first \$2,000 of net taxable income to 5.95% (effective January 1, 2000) on taxable income in excess of \$60,000.

Budgetary General Fund business taxes totaled \$1,051.1 for fiscal 2001. The primary business taxes include corporation franchise taxes, which yielded \$533.6 million (up 13.2%) in fiscal 2001; business and occupational gross receipts taxes, which totaled \$139.4 million (up 3.1%) in fiscal 2001; bank franchise taxes, which totaled \$96.7 million (down 9.5%) in fiscal 2001; and corporate income taxes, which yielded \$110.4 million (down 17.3%) in fiscal 2001. Income from Rental and Sales increased significantly, primarily as a result of a decision to reclassify certain revenues previously recorded as miscellaneous other revenue.

The Delaware Lottery was another principal source of revenue in fiscal 2001. The contribution to the budgetary General Fund from traditional and video lottery income increased by 10.4% in fiscal 2001, to \$204.6 million. After years of rapidly increasing revenues due to expansion in the number of machines and a re-negotiation of the machine vendor contracts, the State expects the rate of growth in revenues from the video lottery to slow to more modest levels.

The following table and chart depict State revenues by source on a GAAP basis for all Governmental Fund Types and Expendable Trust Funds.



COMPARISON OF REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

For the Year Ended June 30

(Expressed in Millions)

	1998 Amount	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999	2001 Amount	% of Change from 2000
Taxes	\$ 2,073.3	\$2,147.0	3.6%	\$2,216.0	1.4%	\$2,312.6	4.4%
Licenses, Fines,							
Permits and Fees	589.4	644.6	9.4	736.6	14.3	728.6	1.5
Rentals and Sales	115.4	107.6	(6.8)	118.8	10.4	333.7	181.5
Federal Government	640.1	621.1	(3.0)	790.2	27.2	664.3	(17.7)
Interest and Other							
Investment Income	89.0	86.4	(2.9)	103.6	19.9	133.4	28.8
Other	250.8	349.8	39.5	246.1	(29.6)	155.3	(39.1)
Total Revenues	<u>\$ 3,758.0</u>	<u>\$3,956.5</u>	5.3%	<u>\$4,211.3</u>	6.4%	<u>\$4,327.9</u>	2.8%

Expenditures

The State assumes substantial financial responsibility for a number of programs often funded by local units of government in other states, including public and higher education, social services programs, highways, and the correctional system. Expenditures in fiscal 2001 for all Governmental Fund Types and Expendable Trust Funds totaled \$4.7 billion, an increase of 6.1% over fiscal 2000. Budgetary General Fund expenditures totaled \$2.4 billion in fiscal 2001, 8.1% growth over fiscal 2000 compared with enacted budget growth of 6.8%. A significant share of the budgetary expenditure increase comes from the spend-down of continuing appropriations from prior years.

In fiscal 2001, nearly one-third of all State spending was for public and higher education. Spending totaled \$1,447.0 million for education programs, an increase of 11.5% over fiscal 2000, driven by growth in enrollment and increasing service levels as well as the State's commitment to education accountability, professional development and reading specialists. Health and Children's Services expenditures of \$1,179.1 million, representing almost one-fourth of total expenditures, increased 11.1% over fiscal 2000 as a result of rising health care costs, especially in the area of prescription drugs. General Government expenditures, the third largest component, increased 8.9% to \$943.5 million primarily due to renovation, construction and subsequent personnel costs for State offices, new schools and prison construction. Transportation expenditures declined due to completion of major projects during fiscal 2000.

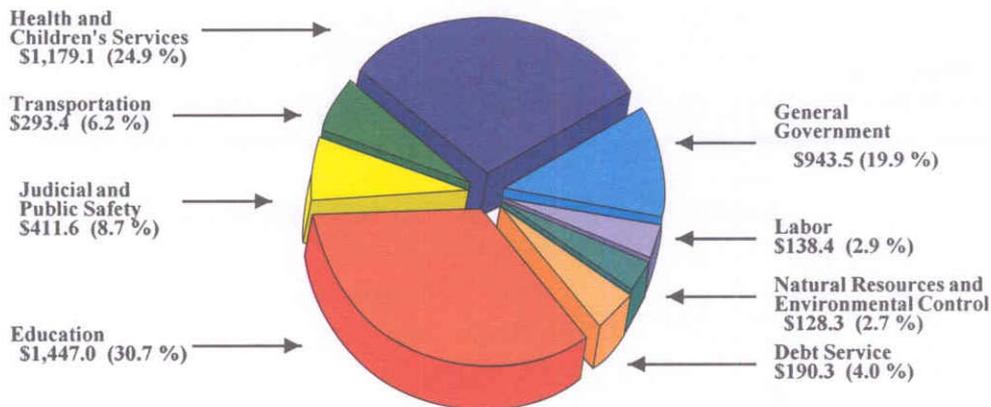
The table and chart on the following page depict State expenditures for all Governmental Fund Types and Expendable Trust Funds on a GAAP basis.

**COMPARISON OF EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**

For the Year Ended June 30
(Expressed in Millions)

	1998 Amount	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999	2001 Amount	% of Change from 2000
General Government	\$ 574.8	\$ 856.5	49.0%	\$ 866.6	1.2%	\$ 943.5	8.9 %
Judicial & Public Safety	294.1	328.3	11.6	372.4	13.4	411.6	10.5
Health & Children's Services	886.4	944.4	6.5	1,061.4	12.4	1,179.1	11.1
Natural Resources & Environmental Control	104.3	123.5	18.4	128.2	3.8	128.3	0.1
Transportation	336.8	380.7	13.0	429.4	12.8	293.4	(31.7)
Labor	177.7	195.9	10.2	119.8	(38.8)	138.4	15.5
Education	1,158.0	1,193.9	3.1	1,297.7	8.7	1,447.0	11.5
Debt Service	170.6	177.0	3.8	183.9	3.9	190.3	3.5
Total Expenditures	\$ 3,702.7	\$ 4,200.2	13.4%	\$ 4,459.4	6.2%	\$ 4,731.6	6.1 %

**EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
For the Year Ended June 30, 2001
(Expressed in Millions)**



Fund Balances and Retained Earnings

The fund balances and retained earnings of the primary government, excluding account groups and discretely presented component units, decreased 7.9% in fiscal 2001 to \$6.8 billion. Of that amount, the GAAP General Fund balance

decreased 16.4% to \$762.6. The General Fund Unreserved/Undesignated fund balance represents a portion of the budgetary General and Appropriated Special Funds which are not at this time encumbered or legally obligated, but which have been clearly earmarked for specific programs, as well as the operations portion of the Transportation Trust Fund, decreased 36.7% to \$350.0. Revenue growth was offset by the use of existing fund balances for the completion of renovations and construction costs for State facilities such as the New Castle County Courthouse, new schools and prisons.

The following table presents a comparison of fund balances and retained earnings of the primary government by GAAP fund for fiscal 1998 through 2001. The chart displays the percentages of Fund Balances and Retained Earnings by GAAP fund type for the fiscal year ended June 30, 2001.

COMPARISON OF TOTAL FUND BALANCES AND RETAINED EARNINGS							
At June 30							
(Expressed in Millions)							
	1998 Amount	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999	2001 Amount	% of Change from 2000
General	\$ 893.8	\$ 879.8	(1.6) %	\$ 912.4	3.7 %	\$ 762.6	(16.4) %
Other Governmental :							
Special Revenue	114.7	127.8	11.4	135.7	6.2	122.5	(9.7)
Capital Projects	170.3	149.5	(12.2)	200.5	34.1	194.4	(3.0)
Debt Service	93.4	96.6	3.4	102.4	6.0	107.9	5.4
Enterprise	1.0	1.0	0.0	1.0	0.0	0.9	(10.0)
Trusts :							
Expendable	331.7	362.8	9.4	389.3	7.3	349.6	(10.2)
Nonexpendable	3.0	2.9	(3.3)	2.4	(17.2)	2.5	4.2
Pension	4,452.1	4,898.1	10.0	5,657.3	15.5	5,273.1	(6.8)
Investment	N/A	N/A	N/A	6.5	N/A	7.5	15.4
Total Fund Balance/ Retained Earnings	\$ 6,060.0	\$ 6,518.5	7.6 %	\$ 7,407.5	13.6 %	\$ 6,821.0	(7.9) %

