

**MINUTES of the
DELAWARE ECONOMIC & FINANCIAL ADVISORY COUNCIL**

Buena Vista – March 19, 2012

Attendance:

Member	Present
S. Bhatt	Yes
J. Bullock	Yes
L. Davis Burnham	Yes
R. Byrd	Yes
J. Casey	Yes
N. Cook	Yes
T. Cook	Yes
R. Cordrey	Yes
R. Davis	Yes
J. DiPinto	No
F. Dixon	No
B. Fasy	No
C. Flowers	No
R. Gilligan	No
R. Glen	Yes
G. Hindes	No
J. Horty	Yes

Member	Present
D. Hudson	Yes
R. Larson	No
A. Levin	Yes
K. Lewis	Yes
D. Link	No
A. Lubin	Yes
J. Martin	Yes
C. Morgan	Yes
J. Polidori	Yes
E. Ratledge	Yes
T. Shopa	No
G. Simpson	Yes
A. Staton	Yes
D. Swayze	Yes
J. Twilley	Yes
A. Visalli	Yes
D. Williams	No

Members in Attendance: 24
Members Absent: 10

Others Present: B. Bushweller, P. Carter, M. Casey, J. Craig, R. Geisenberger, D. Gregor, P. Lowe, B. Maxwell, S. McVay, B. Motyl, A. Penny, B. Scogletti, C. Stewart, and members of the press.

Opening Business: Mr. Martin called the meeting to order at 3:00 p.m. and announced that the newest member of DEFAC is Mr. Joshua Twilley. Mr. Twilley introduced himself. He is the President of Incorporating Services. He is also the Chairman of the Board for The Bank of Wyoming.

Mr. Bhatt introduced Ms. Pamela Lowe as the new Finance Director at the Department of Transportation. Ms. Lowe was previously the Idaho Transportation Department Director.

The minutes from the December meeting were approved as submitted.

Expenditure Subcommittee:

Mr. Ratledge presented the Expenditure Subcommittee's report. In his review of the Balance Sheet estimate, he noted that the Reversion estimate was increased from \$50.0 million to \$60.0 million and Continuing was increased from \$229.2 million to \$246.7 million. (See Table 1a for complete details).

Mr. Ratledge reviewed the Function Sheet estimate. He noted that, since the December estimate, Pensions increased from \$238.9 million to \$248.0 million. Debt Service increased from \$139.2 million to \$144.2 million. Contractual Services decreased from \$506.6 million to \$475.0 million. (See Table 1b for complete details.)

A motion was made, seconded and approved to accept \$3,626.1 million as the expenditure estimate for FY2012. This represents a decrease of \$27.5 million from December's estimate.

Revenue Subcommittee:

Mr. Lewis presented the Revenue Subcommittee's report.

Economic Outlook

Mr. Craig reviewed the Global Insight March forecast. Since the December forecast, there has been some improvement in FY2012's performance. The real GDP growth rate has been increased from 1.7% to 1.8%. The most recent monthly employment reports have continued to be better than expected. Fourth quarter GDP was 3.0%, better than the 2.6% predicted in December. The outlook for FY2013 Real GDP growth increased from 1.9% to 2.1%. Diminished concern about the risks in the Eurozone has lowered the recession probability from 35% in December to 20%. There is, however, increased concern about the rise in oil prices and potential risk of a supply side shock.

In response to a question from Mr. Bhatt, Mr. Lewis said that at this point in the fiscal year more weight and attention is paid to revenue tracking and less to economic data that will be subject to revisions in coming years. Mr. Lewis noted that Delaware withholding collections is a better indicator of the state's economic health.

Mr. Gregor added that nine months of withholding collections have grown at 3.5%, whereas the wage and salary forecast of 4.5% will likely be revised downward at a later time.

General Fund Revenues - Fiscal Year 2012:

The Revenue Subcommittee recommended the following updates to December's estimates:

FY 2012

Revenue Category	Dec-11	Mar-12	Change
Insurance Taxes	71.2	58.8	(12.4)
Gross Receipts Tax	227.5	238.0	10.5
Corporation Income Tax	145.0	137.5	(7.5)
Estate Tax	15.0	10.0	(5.0)
Bank Franchise Tax	106.2	110.1	3.9
Other Revenues	82.1	85.7	3.6
Corporate Fees	87.3	84.8	(2.5)
Other Refunds	(37.5)	(35.6)	1.9
Dividends and Interest	7.0	8.5	1.5
Personal Income Tax	1,233.1	1,233.4	0.3
Hospital Board and Treatment	66.8	66.5	(0.3)

For a complete listing of FY 2012 estimates, see Table 2.

Discussion of FY 2012 Estimates:

Personal Income Tax: Mr. Lewis stated that the only change was a slight increase attributed to prior year settlements. He noted that there was down side risk in withholding and that we won't know anything new about final settlements until the May meeting.

Corporate Franchise Tax: Mr. Lewis stated that there was a good discussion about this category in the subcommittee. A slide was presented that compared the growth of IPO's and the growth of GDP. This showed that there is not much correlation between the two and that over the past decade there has not been much IPO growth. (See Chart 1, attached.)

Corporate Income Tax: Mr. Lewis stated that the reduction was attributed to lower tracking. Mr. Lewis noted that the estimate would have been lowered further except there are some potential IRS audits outstanding.

Mr. Gregor stated that the next major payment date is April 1st when the 50% payment is due. He added that a major taxpayer is undergoing an IRS audit and that it involves multiple years. The timing and amount of that settlement are unknown at this time. He reminded the Council that there was a similar instance like this last spring.

Bank Franchise Tax: Mr. Lewis stated that the increase was attributed to tracking.

Gross Receipts Tax: Mr. Lewis stated that the increase was attributed to a combination of continued strong tracking, better enforcement, and the increases in oil prices.

Estate: Mr. Lewis stated that \$5 million decrease was attributed to tracking.

Insurance Tax: Mr. Gregor stated that the reduction was attributed COLI's.

Other changes were attributed to tracking.

FY2012 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,400.4 million as the revenue estimate for FY2012.

The estimate represents a decrease of \$6.0 million from DEFAC's December estimate. Mr. Lewis noted that the adjusted growth rate is 1.0%

General Fund Revenues - Fiscal Year 2013:

Mr. Lewis reported that the Subcommittee recommended the following updates to December's estimates:

FY 2013

Revenue Category	Dec-11	Mar-12	Change
Gross Receipts Tax	227.3	237.8	10.5
Corporation Income Tax	151.3	143.4	(7.9)
Estate Tax	21.2	15.0	(6.2)
Franchise Tax	608.3	602.2	(6.1)
Insurance Taxes	71.5	65.5	(6.0)
Bank Franchise Tax	112.5	109.7	(2.8)
Corporate Fees	91.6	89.0	(2.6)
Hospital Board and Treatment	65.2	63.6	(1.6)
Other Refunds	(38.3)	(39.8)	(1.5)
Dividends and Interest	7.0	8.2	1.2
Personal Income Tax	1,285.9	1,286.2	0.3

For a complete listing of FY 2013 estimates, see Table 2.

Discussion of FY 2013 Estimates:

Corporate Franchise Tax: Mr. Lewis stated that the growth rate was reduced from 0.0% to -1.0%.

Bank Franchise Tax: Mr. Lewis noted that the entire tracking change from FY2012 was not carried into FY2013.

Hospital Board and Treatment: Mr. Lewis noted that the entire tracking change from FY2012 was not carried into FY2013.

Dividends and Interest: Mr. Lewis noted that the entire tracking change from FY2012 was not carried into FY2013.

Estate: Mr. Lewis stated that the \$6.2 million reduction was attributed to getting the estimate in line with the collections levels of the past two years.

Insurance Tax: Mr. Lewis noted that the entire tracking change from FY2012 was not carried into FY2013.

Mr. Lewis reported that all other changes reflected the carrying forward of changes made in FY2012 and maintaining previous growth rates.

FY 2013 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,566.1 million as the revenue estimate for FY2013.

The estimate represents a decrease of \$22.7 million from the December estimate. Mr. Lewis noted that the adjusted growth rate is 2.0%

Mr. Lewis stated that the FY2014 estimate is \$3,603.9 million and represents growth of 1.7%.

Balance and Appropriations Worksheet: Mr. Gregor presented the balance and appropriations worksheet. The result of this exercise is attached as Table 3.

Transportation Trust Fund (TTF)

TTF -- Expenditures: Mr. Motyl presented the Transportation Trust Fund's expenditure forecast.

State Operations Expenditure: There was no change from December's estimate.

State Capital Expenditure: Mr. Motyl recommended that the estimate be lowered from \$210.0 million to \$185.0 million. Mr. Motyl attributed the decrease primarily to Road System project delays.

Federal Capital Expenditure: Mr. Motyl recommended that the estimate be lowered from \$205.7 million to \$195.0 million. Mr. Motyl attributed the decrease as being associated to the decrease in State Capital Expenditures.

GARVEE – US301 Capital Expenditure: Mr. Motyl recommended that the estimate be lowered from \$47.8 million to \$39.0 million. Mr. Motyl attributed the decrease as being related to right-of-way acquisitions.

Ms. Davis-Burnham asked what the third-rail project was. Mr. Bhatt answered that it involved a one mile stretch in Wilmington that is a choke point on the northeast corridor.

Mr. Morgan asked why there was not a reduction in operation expenditures following the mild winter. Mr. Motyl responded that there could still be additional weather events.

A motion was made, seconded, and approved to accept \$782.7 million as the FY2012 TTF expenditure estimate. The estimate represents a decrease of \$44.5 million from December's estimate. (See Table 4.)

TTF -- Revenues: Mr. Motyl presented the Transportation Trust Fund's revenue forecast.

FY2012 Estimates:

Mr. Motyl stated that all revenue categories were performing as expected and that there were no changes made from the December estimate.

A motion was made, seconded, and approved to accept \$428.6 million as the FY2012 revenue estimate. The estimate represents no change from the December estimate.

FY2013 Estimates:

Mr. Motyl stated that all revenue categories were performing as expected and that there were no changes made from the December estimate.

A motion was made, seconded, and approved to accept \$437.6 million as the FY2013 revenue estimate. The estimate represents no change from the December estimate. (See Table 5)

Other Business:

Mr. Martin announced the next scheduled DEFAC meeting dates:

- April 16, 2012
- May 21, 2012

Mr. Martin noted that the next two meetings would follow the same format as the March meeting. The Expenditure Subcommittee will meet at 12:00 p.m. The Revenue Subcommittee will meet at 1:00 p.m. The full Council will meet at 3:00 p.m.

Mr. Gregor noted that at the June 15th DEFAC meeting, the Expenditure Sub Committee will meet at 11:00 a.m. The Revenue Sub Committee and the full Council meeting will be held concurrently at 12:00 p.m.

Mr. Martin stated that he was available for any comments or suggestions about meeting structure.

Mr. Simpson recognized that his Senate colleague Mr. Bushweller was in attendance at today's meeting.

There being no further business, Mr. Martin adjourned the meeting at 4:00 p.m.

Respectfully submitted,

James A. Craig

Table 1b.

DEFAC Expenditures Forecast for General Fund Disbursements FY2012 (\$ in millions)
March 2012 (as of 03/19/12)

	FY2005		FY2006		FY2007		FY2008		FY2009		FY2010		FY2011		Sep		Dec		Mar		Difference 11 vs. 12	FY2012 YTD (actual 02/29/12)	% spent FY2012 YTD	% forecast FY2012 total	% of FY2011 total	% of FY2010 total
	Actual	Forecast																								
Salaries	1,023.1	1,108.3	1,167.3	1,222.9	1,225.5	1,154.7	1,200.1	1,282.5	1,273.2	1,273.2	1,273.2	73.1										879.0	35.2%	35.1%	36.7%	37.5%
Fringe Benefits	263.2	298.4	323.5	332.7	332.9	330.9	365.4	395.9	382.2	382.2	382.2	16.8										256.4	10.3%	10.5%	11.2%	10.8%
Health Care						218.9	253.0	270.6	257.8	257.8	257.8	4.8										174.5	7.0%	7.1%	7.7%	7.1%
Other						112.0	112.4	125.3	124.4	124.4	124.4	12.0										81.9	3.3%	3.4%	3.4%	3.6%
Pension	147.1	180.7	201.5	218.6	211.1	196.7	222.2	240.6	238.9	248.0	248.0	25.8										174.8	7.0%	6.6%	6.8%	6.4%
Debt Service	153.5	132.5	131.2	151.1	156.4	174.3	169.5	150.9	139.2	144.2	144.2	(25.3)										111.8	4.5%	4.0%	5.2%	5.7%
Grants	294.1	403.1	365.1	259.1	265.8	276.6	327.3	386.7	376.7	376.7	376.7	49.4										282.6	11.3%	10.4%	10.0%	9.0%
Medicaid	339.1	381.4	441.6	494.2	419.4	428.6	466.2	671.3	639.0	639.0	639.0	172.8										434.3	17.4%	17.6%	14.3%	13.9%
Public Assistance Programs	83.6	91.7	94.1	97.2	85.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0										0.0	0.0%	0.0%	0.0%	0.0%
Professional Services	161.3	181.0	216.8	210.6	204.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0										0.0	0.0%	0.0%	0.0%	0.0%
Contractual Services	228.9	252.2	289.5	296.7	286.8	435.7	434.5	506.5	506.6	475.0	475.0	40.5										304.1	12.2%	13.1%	13.3%	14.2%
Supplies & Materials	66.5	73.6	72.1	72.1	66.6	58.9	59.1	87.8	77.8	72.8	72.8	13.7										46.3	1.9%	2.0%	1.8%	1.9%
Capital Outlay	61.9	77.6	87.2	66.5	41.5	20.1	26.4	12.5	20.0	15.0	15.0	(11.4)										9.7	0.4%	0.4%	0.8%	0.7%
FY Budgetary Expenditures	2,822.3	3,180.5	3,389.9	3,421.7	3,295.5	3,076.5	3,270.7	3,734.7	3,653.6	3,626.1	3,626.1	355.4										2,499.0	100.0%	100.0%	100.0%	100.0%

Comments:

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2011		FY 2012					FY 2013				
	A Actual Collections		B DEFAC Dec-11	C % B over A	D DEFAC Mar-12	E % D over A	F \$ Increase D over B	G DEFAC Dec-11	H % G over B	I DEFAC Mar-12	J % I over D	K \$ Increase I over G
Personal Income Tax	1,175.9		1,233.1	4.9%	1,233.4	4.9%	0.3	1,285.9	4.3%	1,286.2	4.3%	0.3
Less: Refunds	(178.8)		(190.0)	6.3%	(190.0)	6.3%	0.0	(199.5)	5.0%	(199.5)	5.0%	0.0
PIT Less Refunds	997.2		1,043.1	4.6%	1,043.4	4.6%	0.3	1,086.4	4.2%	1,086.7	4.1%	0.3
Franchise Tax	614.5		608.3	-1.0%	608.3	-1.0%	0.0	608.3	0.0%	602.2	-1.0%	(6.1)
Limited Partnerships & LLC's	156.3		164.3	5.1%	164.3	5.1%	0.0	172.5	5.0%	172.5	5.0%	0.0
Subtotal Franchise + LP/LLC	770.7		772.6	0.2%	772.6	0.2%	0.0	780.8	1.1%	774.7	0.3%	(6.1)
Less: Refunds	(11.0)		(11.0)	-0.1%	(11.0)	-0.1%	0.0	(11.0)	0.0%	(11.0)	0.0%	0.0
Net Franchise + LP/LLC	759.7		761.6	0.2%	761.6	0.2%	0.0	769.8	1.1%	763.7	0.3%	(6.1)
Business Entity Fees	83.1		87.3	5.0%	84.8	2.0%	(2.5)	91.6	4.9%	89.0	5.0%	(2.6)
Uniform Commercial Code	16.4		16.9	2.9%	16.9	2.9%	0.0	17.4	3.0%	17.4	3.0%	0.0
Corporation Income Tax	221.2		145.0	-34.4%	137.5	-37.8%	(7.5)	151.3	4.3%	143.4	4.3%	(7.9)
Less: Refunds	(52.9)		(36.8)	-30.5%	(36.8)	-30.5%	0.0	(38.6)	4.9%	(38.6)	4.9%	0.0
CIT Less Refunds	168.3		108.2	-35.7%	100.7	-40.2%	(7.5)	112.7	4.2%	104.8	4.1%	(7.9)
Bank Franchise Tax	119.7		106.2	-11.3%	110.1	-8.0%	3.9	112.5	5.9%	109.7	-0.4%	(2.8)
Gross Receipts Tax	201.1		227.5	13.1%	238.0	18.3%	10.5	227.3	-0.1%	237.8	-0.1%	10.5
Lottery	287.0		266.9	-7.0%	266.9	-7.0%	0.0	246.7	-7.6%	246.7	-7.6%	0.0
Abandoned Property	427.9		383.6	-10.4%	383.6	-10.4%	0.0	484.0	26.2%	484.0	26.2%	0.0
Hospital Board and Treatment	70.5		66.8	-5.3%	66.5	-5.7%	(0.3)	65.2	-2.4%	63.6	-4.4%	(1.6)
Dividends and Interest	8.9		7.0	-21.1%	8.5	-4.1%	1.5	7.0	0.0%	8.2	-3.5%	1.2
Realty Transfer Tax	44.1		28.5	-35.3%	28.5	-35.3%	0.0	29.9	4.9%	29.9	4.9%	0.0
Estate Tax	16.2		15.0	-7.2%	10.0	-38.1%	(5.0)	21.2	41.3%	15.0	50.0%	(6.2)
Insurance Taxes	62.9		71.2	13.2%	58.8	-6.5%	(12.4)	71.5	0.4%	65.5	11.4%	(6.0)
Public Utility Tax	57.2		47.0	-17.8%	47.0	-17.8%	0.0	47.6	1.3%	47.6	1.3%	0.0
Cigarette Taxes	129.1		125.0	-3.2%	125.0	-3.2%	0.0	123.8	-1.0%	123.8	-1.0%	0.0
Other Revenues	131.3		82.1	-37.5%	85.7	-34.8%	3.6	89.8	9.4%	89.8	4.8%	0.0
Less: Other Refunds	(49.1)		(37.5)	-23.6%	(35.6)	-27.5%	1.9	(38.3)	2.1%	(39.8)	11.8%	(1.5)
Net Receipts	3,531.4		3,406.4	-3.5%	3,400.4	-3.7%	(6.0)	3,566.1	4.7%	3,543.4	4.2%	(22.7)

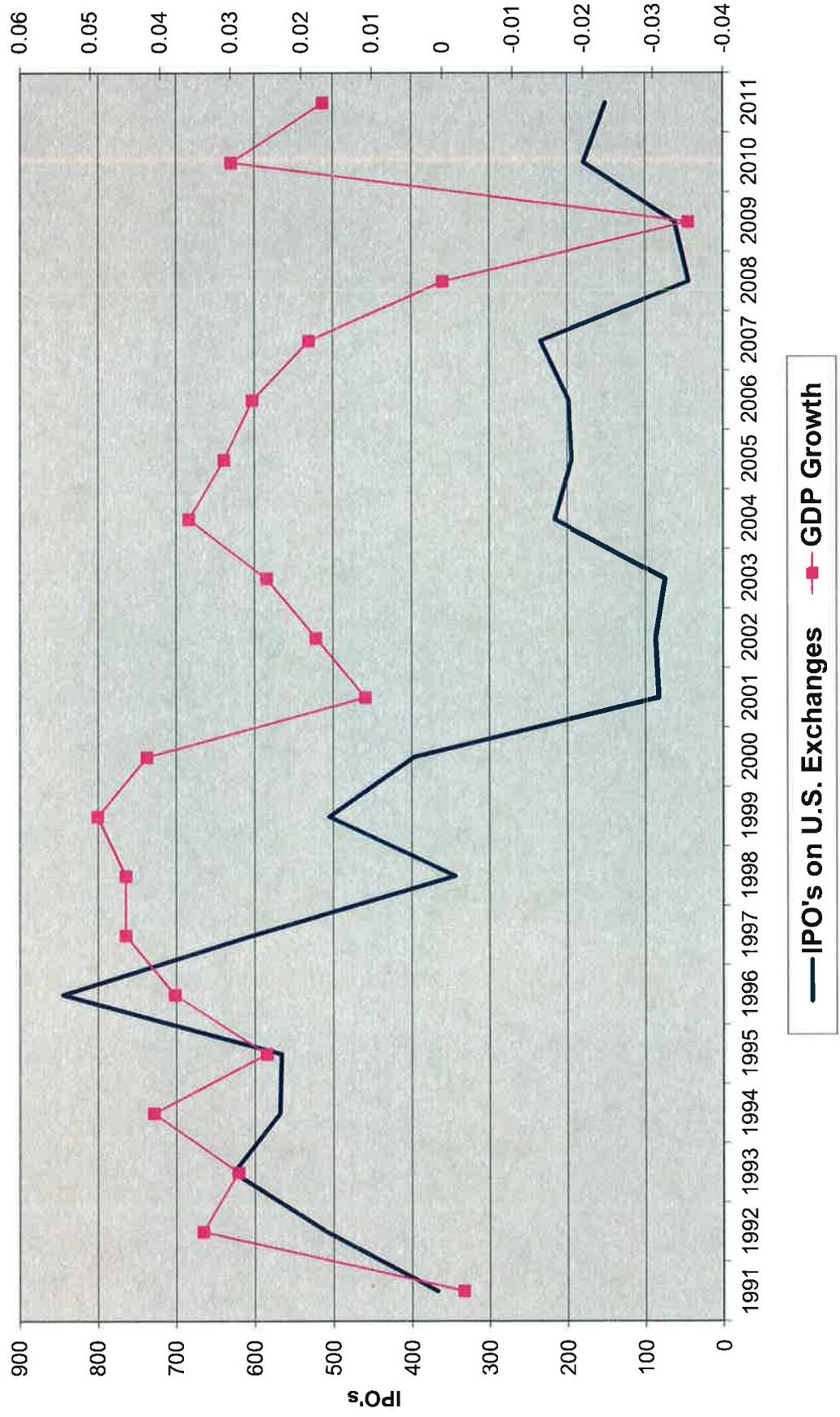
FY 2013 Debt Limit: \$177.2

Table 2.

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2014					
	L DEFAC Dec-11	M % L over G	N DEFAC Mar-12	O % N over I	P \$ Increase N over L	
Personal Income Tax	1,329.3	3.4%	1,329.6	3.4%	0.3	
Less: Refunds	(209.5)	5.0%	(209.5)	5.0%	0.0	
PIT Less Refunds	1,119.8	3.1%	1,120.1	3.1%	0.3	
Franchise Tax	608.3	0.0%	602.2	0.0%	(6.1)	
Limited Partnerships & LLC's	181.2	5.0%	181.2	5.0%	0.0	
Subtotal Franchise + LP/LLC	789.5	1.1%	783.4	1.1%	(6.1)	
Less: Refunds	(11.0)	0.0%	(11.0)	0.0%	0.0	
Net Franchise + LP/LLC	778.5	1.1%	772.4	1.1%	(6.1)	
Business Entity Fees	96.2	5.0%	93.5	5.1%	(2.7)	
Uniform Commercial Code	17.9	2.9%	17.9	2.9%	0.0	
Corporation Income Tax	158.8	5.0%	150.6	5.0%	(8.2)	
Less: Refunds	(40.6)	5.2%	(40.6)	5.2%	0.0	
CIT Less Refunds	118.2	4.9%	110.0	5.0%	(8.2)	
Bank Franchise Tax	118.4	5.2%	115.3	5.1%	(3.1)	
Gross Receipts Tax	235.3	3.5%	246.1	3.5%	10.8	
Lottery	244.0	-1.1%	244.0	-1.1%	0.0	
Abandoned Property	484.0	0.0%	484.0	0.0%	0.0	
Hospital Board and Treatment	65.9	1.1%	64.3	1.1%	(1.6)	
Dividends and Interest	7.5	7.1%	8.0	-2.4%	0.5	
Realty Transfer Tax	31.4	5.0%	31.4	5.0%	0.0	
Estate Tax	16.9	-20.3%	12.0	-20.0%	(4.9)	
Insurance Taxes	72.1	0.8%	66.1	0.9%	(6.0)	
Public Utility Tax	49.3	3.6%	49.3	3.6%	0.0	
Cigarette Taxes	122.5	-1.1%	122.5	-1.1%	0.0	
Other Revenues	86.8	-3.3%	86.8	-3.3%	0.0	
Less: Other Refunds	(38.3)	0.0%	(39.8)	0.0%	(1.5)	
Net Receipts	3,626.4	1.7%	3,603.9	1.7%	(22.5)	

Chart 1.
IPO's on U.S. Exchanges vs. U.S. GDP Growth
1991-2011



Balance and Appropriations Worksheet

Table 3.

FY 2012 EXPENDITURES	FY 2012 BALANCES	FY 2013 APPROPRIATION LIMITS	
Total Spending Authority	\$3,968.8	FY 2013 Revenue Estimate	\$3,543.4
Less: Continuing Appropriations & Encumbrances from FY 2012	(\$282.7)	Unencumbered Cash Balance from FY 12	\$103.0
Less: Reversions	(\$60.0)	100% Appropriation Limit	\$3,646.4
Total Expenditures	\$3,626.1	98% Appropriation Limit	\$3,573.5
		Prior 98% Appropriation Limit	\$3,591.8
		Increase (Decrease) from Prior Meeting	(\$18.3)
		Sept. 2011 98% Appropriation Limit	\$3,519.9
		Increase (Decrease) from September 2011	\$53.6

Table 4.

Delaware Department of Transportation
FY 2012 Expenditures, Thru February 29, 2012

	FY2010 Actual	FY2011 Actual	FY2012 Appropriation	SEPTEMBER FY2012 Forecast	DECEMBER FY2012 Forecast	MARCH FY2012 Forecast	\$ difference FY2011 Actual	FY2012 YTD Spend	% spent YTD
<u>Operations</u>									67%
Debt Service	121.5	123.8	134.6	126.7	126.7	126.7	0.0	122.7	96.8%
Personnel Costs	83.4	84.5	85.1	85.1	85.1	85.1	0.0	58.5	68.7%
Operations/Capital Outlay	59.6	55.3	56.7	56.7	56.7	56.7	0.0	36.8	64.9%
Transit Operations (DTC)	90.0	90.4	95.2	95.2	95.2	95.2	0.0	63.6	66.8%
Total Expenditures - Operations	354.5	354.0	371.6	363.7	363.7	363.7	0.0	281.6	77.4%
<u>Capital (State)</u>			<u>CTP Spend</u>						
Road System	124.0	90.1	278.7	197.2	165.7	144.7	(21.0)	89.2	61.6%
Grants & Allocations	13.5	13.5	40.1	18.1	14.5	14.5	0.0	11.0	75.9%
Support Systems	24.0	18.9	32.1	25.5	20.8	18.8	(2.0)	10.8	57.4%
Transit	8.8	5.0	14.8	10.3	9.0	7.0	(2.0)	2.0	28.6%
Total Expenditures- State Capital	170.3	127.5	365.7	251.1	210.0	185.0	(25.0)	113.0	61.1%
<u>Capital (Federal)</u>			<u>CTP Spend</u>						
Federal Capital	239.1	200.7	320.5	235.7	205.7	195.0	(10.7)	134.8	69.1%
<u>Capital (GARVEE)</u>			<u>CTP Spend</u>						
GARVEE - US301	0.0	13.8	87.2	47.8	47.8	39.0	(8.8)	15.5	39.7%
Total Expenditures - Capital	409.4	342.0	773.4	534.6	463.5	419	(44.5)	263.3	62.8%
TOTAL EXPENDITURES	763.9	696.0	1,145.0	898.3	827.2	782.7	(44.5)	544.9	69.6%

Debt-service is set-aside monthly and paid July 1st and January 1st.
 Expenditures represent actual expenditures not monthly set-aside amounts.

DTC Budget is \$77.5 + Farebox \$17.7 (Total \$95.2)

