

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

Buena Vista – March 18, 2013

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	No
J. DiPinto	No
F. Dixon	Yes
B. Fasy	No
C. Flowers	No
R. Gilligan	Yes
R. Glen	Yes
G. Hindes	No
J. Horty	Yes

Member	Present
D. Hudson	No
A. Levin	Yes
K. Lewis	Yes
D. Link	No
A. Lubin	Yes
G. Marcozzi	Yes
J. Martin	Yes
C. Morgan	No
M. Morton	Yes
J. Polidori	No
E. Ratledge	No
T. Shopa	Yes
G. Simpson	No
M. George Smith	No
A. Staton	No
D. Swayze	Yes
J. Twilley	Yes
A. Visalli	Yes

Members in Attendance: 22

Members Absent: 13

Others Present: A. Aka, M. Brennan, P. Carter, J. Craig, K. Dwyer, J. Eisenbrey, R. Geisenberger, D. Gregor, K. Knight, B. Maxwell, S. McVay, A. Moffett-Batty, B. Motyl, A. Penney, B. Scogletti, S. Scola, C. Stewart, J. Vaughn, J. Wilson and members of the press.

Opening Business: Mr. Martin called the meeting to order at 3:00 p.m.

Mr. Martin welcomed Mr. Marcozzi as the newest member to the Council.

Mr. Martin announced the retirement of Mr. Craig.

The minutes from the December meeting were approved as submitted.

Expenditure Subcommittee:

Ms. Davis Burnham presented the Expenditure Subcommittee's report.

Ms. Davis Burnham reviewed the Function Sheet estimate. She reported that the estimate for Salaries was increased by \$18.0 million. This increase was largely attributed to funding the Education Attainment Fund. The estimate for Medicaid was decreased by \$8.1 million, reflecting the estimate provided by MEDFAC. The Subcommittee increased its estimate for Contractual Services by \$10.0 million based on spending for information technology. (See Table 1b for complete details.)

In her review of the Balance Sheet estimate, Ms. Davis Burnham noted that the estimate for Continuing was decreased by \$18.8 million. (See Table 1a for complete details).

A motion was made, seconded and approved to accept \$3,658.5 million as the expenditure estimate for FY2013. This represents an increase of \$18.8 million from the December estimate.

Revenue Subcommittee:

Mr. Lewis presented the Revenue Subcommittee report.

Economic Outlook

Mr. Craig reviewed the Global Insight March forecast. He noted that the GDP outlook was unchanged from the December forecast. US economic growth is slowly gaining momentum as reflected in the housing industry, improving manufacturing surveys and improving employment reports. With the resolution of the "fiscal cliff" issue, the greatest fiscal policy concern affecting the forecast is the impact of the budget sequester. Global Insight assumes that the sequester will end next quarter and will reduce the GDP growth rate by 0.3%.

There was a reduction in the growth rate forecast for Delaware employment for FY2013. It was lowered from 1.5% to 0.9%. Mr. Craig noted that there has been minimal employment growth stretching back seven quarters.

Mr. Dixon stated that the Global Insight forecast was the typical trend forecast, which assumes that future performance will outpace current conditions. He concurs that recent readings from most indicators have been upbeat. He did reflect on the FY2015 estimate and wonder if there is a bubble of excessive complacency developing amongst consensus forecasters.

Mr. Lewis voiced concern about the reduction in Delaware employment growth. He noted that in FY2012, U.S. employment growth was 1.6% and Delaware's growth was only 0.2%. Mr. Lewis noted that in recent quarters Delaware's employment growth has failed to keep pace with the US economy. He noted that this reason for this phenomenon remains elusive, but that understanding its scope would be useful.

Mr. Gregor said that a presentation could be prepared for the next meeting to show how Delaware has been performing sector-by-sector compared to the U.S.

Mr. Swayze stated that it would be interesting to see a correlation between the jobs that are being created and the revenue that they produce.

Mr. Gregor noted that since the conversion of employment codes from SIC to NAICS, it is more difficult to produce the analysis that Mr. Swayze is requesting.

General Fund Revenues - Fiscal Year 2013:

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

Revenue Category	Dec-12	Mar-13	Change
Corporation Income Tax	260.0	209.1	(50.9)
CIT Refunds	(38.6)	(21.0)	17.6
Personal Income Tax	1,305.3	1,317.6	12.3
Bank Franchise Tax	107.7	100.9	(6.8)
Other Refunds	(42.9)	(36.9)	6.0
PIT Refunds	(197.5)	(193.0)	4.5
Gross Receipts Tax	227.5	224.0	(3.5)
Cigarette Taxes	125.0	122.0	(3.0)
Estate Tax	15.0	12.0	(3.0)
Realty Transfer Tax	40.4	42.0	1.6
Limited Partnerships & LLC's	175.6	176.6	1.0
Dividends and Interest	9.0	8.0	(1.0)
Public Utility Tax	45.0	44.0	(1.0)
Hospital Board and Treatment	58.7	58.1	(0.6)
Other Revenues	91.0	91.3	0.3

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

Discussion of FY 2013 Estimates:

Personal Income Tax: Mr. Lewis stated that increase in the estimate was largely attributed to strength in Estimated payments and anticipated strength in Final settlements reflecting the strength in capital gains.

Corporate Income Tax: Mr. Lewis said that the reduction of the estimate reflected the anticipated \$65.0 million from an IRS audit, which has now been adjusted to \$14.0 million in FY2013 and \$45.0 million in FY2014. The drop in the Refund estimate reflects the lack of refund claims being submitted.

Bank Franchise Tax: Mr. Lewis said that the decrease reflected payments which were made on the March 1st due date.

Other changes were attributed to tracking.

FY2013 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,710.2 million as the revenue estimate for FY2013.

The estimate represents a decrease of \$26.5 million from DEFAC's December estimate.

General Fund Revenues - Fiscal Year 2014:

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

Revenue Category	Dec-12	Mar-13	Change
Corporation Income Tax	199.0	244.0	45.0
Bank Franchise Tax	116.8	100.5	(16.3)
Personal Income Tax	1,330.2	1,337.2	7.0
PIT Refunds	(207.4)	(202.7)	4.7
Realty Transfer Tax	44.4	48.3	3.9
Gross Receipts Tax	234.6	231.0	(3.6)
Cigarette Taxes	120.4	117.5	(2.9)
Public Utility Tax	46.4	45.3	(1.1)
Limited Partnerships & LLC's	184.4	185.5	1.1
Hospital Board and Treatment	59.3	58.8	(0.5)
Other Revenues	88.0	88.3	0.3

For a complete listing of FY 2014 estimates, see Table 2b.

Discussion of FY 2014 Estimates:

Personal Income Tax: Mr. Lewis stated that the increase was less than the FY2013 increase because there is a belief that some of the strength in FY2013 is more of a one-time event.

Corporate Income Tax: Mr. Lewis stated that the increase reflected the shifting of payment from a single IRS audit from FY2013 to FY2014.

Mr. Cook provided the Council with an update concerning a \$63.0 million refund claim submitted to the Department of Finance. Additional information concerning the refund has not been provided by the company and, thus, this potential refund still has not been incorporated in the estimate.

Bank Franchise Tax: Mr. Lewis stated that the decrease in the estimate reflected the weak results from the March 1st due date. It was attributed to the legal restructuring at a few of the larger bank franchise taxpayers.

Realty Transfer Tax: Mr. Lewis stated that the growth rate had been increased from 10.0% to 15.0%. This reflects the belief that there is sustainable strength in this category.

Mr. Lewis reported that all other changes reflected the carrying forward of changes made in FY2013 and maintaining previous growth rates.

FY 2014 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,700.9 million as the revenue estimate for FY2014.

The estimate represents an increase of \$37.6 million from the December estimate.

For informational purposes, Mr. Lewis noted that the FY2015 estimate is \$3,627.5 million. This represents a 2.0% decline from the FY2014 estimate and is \$10.4 million lower than December's estimate.

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. The following changes were made to December's estimates:

State Capital Expenditure: The estimate was reduced from \$204.6 million to \$194.8 million. Mr. Motyl explained that the decrease was due largely to a reduction in Road System expenditures.

Federal Capital Expenditure: The estimate was reduced from \$260.0 million to \$239.0 million.

GARVEE – US301 Capital Expenditure: The estimate was reduced from \$47.0 million to \$31.6 million. Mr. Motyl explained that the decrease was attributed to delays in the land acquisition process.

A motion was made, seconded, and approved to accept \$812.3 million as the FY2013 TTF expenditure estimate. The estimate represents a decrease of \$46.2 from December's estimate. (See Table 4.)

TTF -- Revenues: Mr. Motyl presented the Transportation Trust Fund's revenue forecast. He stated that revenues are performing largely as expected with only one change.

The following change was made to the December estimates.

FY2013 Estimates:

I-95 Toll Revenue: Decreased from \$119.1 million to \$117.3 million.

A motion was made, seconded, and approved to accept \$445.4 million as the FY2013 revenue estimate. The estimate represents a decrease of \$1.8 million from the December estimate.

FY2014 Estimates:

I-95 Toll Revenue: Decreased from \$121.4 million to \$119.5 million.

The FY2014 revenue estimate is \$455.6 million. The estimate represents a decrease of \$1.9 million from the December estimate. (See Table 5.)

Other Business:

Mr. Martin announced the next scheduled DEFAC meeting dates:

- April 15, 2013
- May 20, 2013
- June 17, 2013

There being no further business, Mr. Martin adjourned the meeting at 3:55 p.m.

Respectfully submitted,

James A. Craig

Table 2.
DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2012			FY 2013					FY 2014				
	A Actual Collections	B DEFAC Dec-12	C % B over A	D DEFAC Mar-13	E % D over A	F \$ Increase D over B	G DEFAC Dec-12	H % G over B	I DEFAC Mar-13	J % I over D	K \$ Increase I over G		
Personal Income Tax	1,231.7	1,305.3	6.0%	1,317.6	7.0%	12.3	1,330.2	1.9%	1,337.2	1.5%	7.0		
Less: Refunds	(189.9)	(197.5)	4.0%	(193.0)	1.6%	4.5	(207.4)	5.0%	(202.7)	5.0%	4.7		
PIT Less Refunds	1,041.9	1,107.8	6.3%	1,124.6	7.9%	16.8	1,122.8	1.4%	1,134.5	0.9%	11.7		
Franchise Tax	611.8	604.2	-1.2%	604.2	-1.2%	0.0	598.2	-1.0%	598.2	-1.0%	0.0		
Limited Partnerships & LLC's	164.9	175.6	6.5%	176.6	7.1%	1.0	184.4	5.0%	185.5	5.0%	1.1		
Subtotal Franchise + LP/LLC	776.7	779.8	0.4%	780.8	0.5%	1.0	782.6	0.4%	783.7	0.4%	1.1		
Less: Refunds	(10.7)	(11.0)	2.4%	(11.0)	2.4%	0.0	(11.0)	0.0%	(11.0)	0.0%	0.0		
Net Franchise + LP/LLC	766.0	768.8	0.4%	769.8	0.5%	1.0	771.6	0.4%	772.7	0.4%	1.1		
Business Entity Fees	84.5	88.7	4.9%	88.7	4.9%	0.0	91.4	3.0%	91.4	3.0%	0.0		
Uniform Commercial Code	16.7	17.2	2.8%	17.2	2.8%	0.0	17.7	2.9%	17.7	2.9%	0.0		
Corporation Income Tax	149.0	260.0	74.5%	209.1	40.3%	(50.9)	199.0	-23.5%	244.0	16.7%	45.0		
Less: Refunds	(29.9)	(38.6)	29.2%	(21.0)	-29.7%	17.6	(40.6)	5.2%	(40.6)	93.3%	0.0		
CIT Less Refunds	119.1	221.4	85.9%	188.1	57.9%	(33.3)	158.4	-28.5%	203.4	8.1%	45.0		
Bank Franchise Tax	112.5	107.7	-4.3%	100.9	-10.3%	(6.8)	116.8	8.4%	100.5	-0.4%	(16.3)		
Gross Receipts Tax	233.4	227.5	-2.5%	224.0	-4.0%	(3.5)	234.6	3.1%	231.0	3.1%	(3.6)		
Lottery	269.0	237.8	-11.6%	237.8	-11.6%	0.0	238.1	0.1%	238.1	0.1%	0.0		
Abandoned Property	319.5	566.5	77.3%	566.5	77.3%	0.0	514.0	-9.3%	514.0	-9.3%	0.0		
Hospital Board and Treatment	65.2	58.7	-9.9%	58.1	-10.9%	(0.6)	59.3	1.0%	58.8	1.2%	(0.5)		
Dividends and Interest	10.6	9.0	-15.5%	8.0	-24.9%	(1.0)	10.0	11.1%	10.0	25.0%	0.0		
Realty Transfer Tax	31.6	40.4	27.9%	42.0	32.9%	1.6	44.4	9.9%	48.3	15.0%	3.9		
Estate Tax	12.0	15.0	25.0%	12.0	0.0%	(3.0)	12.0	-20.0%	12.0	0.0%	0.0		
Insurance Taxes	63.4	52.1	-17.8%	52.1	-17.8%	0.0	57.2	9.8%	57.2	9.8%	0.0		
Public Utility Tax	45.4	45.0	-0.8%	44.0	-3.0%	(1.0)	46.4	3.1%	45.3	3.0%	(1.1)		
Cigarette Taxes	120.8	125.0	3.4%	122.0	1.0%	(3.0)	120.4	-3.7%	117.5	-3.7%	(2.9)		
Other Revenues	81.7	91.0	11.4%	91.3	11.7%	0.3	88.0	-3.3%	88.3	-3.3%	0.3		
Less: Other Refunds	(34.1)	(42.9)	26.0%	(36.9)	8.3%	6.0	(39.8)	-7.2%	(39.8)	7.9%	0.0		
Net Receipts	3,359.3	3,736.7	11.2%	3,710.2	10.4%	(26.5)	3,663.3	-2.0%	3,700.9	-0.3%	37.6		

FY 2013 Debt Limit: \$185.0

Table 2.
DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2015					
	L DEFAC Dec-12	M % L over G	N DEFAC Mar-13	O % N over I	P \$ Increase N over L	
Personal Income Tax	1,354.5	1.8%	1,361.5	1.8%	7.0	
Less: Refunds	(217.8)	5.0%	(212.8)	5.0%	5.0	
PIT Less Refunds	1,136.7	1.2%	1,148.7	1.3%	12.0	
Franchise Tax	518.2	-13.4%	518.2	-13.4%	0.0	
Limited Partnerships & LLC's	193.6	5.0%	194.7	5.0%	1.1	
Subtotal Franchise + LP/LLC	711.8	-9.0%	712.9	-9.0%	1.1	
Less: Refunds	(11.0)	0.0%	(11.0)	0.0%	0.0	
Net Franchise + LP/LLC	700.8	-9.2%	701.9	-9.2%	1.1	
Business Entity Fees	94.1	3.0%	94.1	3.0%	0.0	
Uniform Commercial Code	18.2	2.8%	18.2	2.8%	0.0	
Corporation Income Tax	208.9	5.0%	208.9	-14.4%	0.0	
Less: Refunds	(42.6)	4.9%	(42.6)	4.9%	0.0	
CIT Less Refunds	166.3	5.0%	166.3	-18.2%	0.0	
Bank Franchise Tax	122.6	5.0%	105.4	4.9%	(17.2)	
Gross Receipts Tax	239.3	2.0%	235.6	2.0%	(3.7)	
Lottery	245.5	3.1%	242.8	2.0%	(2.7)	
Abandoned Property	514.0	0.0%	514.0	0.0%	0.0	
Hospital Board and Treatment	59.7	0.7%	59.1	0.5%	(0.6)	
Dividends and Interest	10.9	9.0%	10.9	9.0%	0.0	
Realty Transfer Tax	48.9	10.1%	53.1	9.9%	4.2	
Estate Tax	0.0	-100.0%	0.0	-100.0%	0.0	
Insurance Taxes	58.2	1.7%	58.2	1.7%	0.0	
Public Utility Tax	48.0	3.4%	46.9	3.5%	(1.1)	
Cigarette Taxes	119.2	-1.0%	116.4	-0.9%	(2.8)	
Other Revenues	95.4	8.4%	95.8	8.5%	0.4	
Less: Other Refunds	(39.9)	0.3%	(39.9)	0.3%	0.0	
Net Receipts	3,637.9	-0.7%	3,627.5	-2.0%	(10.4)	

Table 3.
Balance and Appropriations Worksheet

FY 2013 EXPENDITURES		FY 2013 BALANCES		FY 2014 APPROPRIATION LIMITS	
Total Spending Authority	\$3,985.5	Total Expenditures	\$3,658.5	FY 2014 Revenue Estimate	\$3,700.9
Less: Continuing Appropriations & Encumbrances from FY 2013	(\$277.0)	vs. FY 2013 Revenues	3,710.2	Unencumbered Cash Balance from FY 13	\$140.5
Less: Reversions	(\$50.0)	Operating Balance	51.7	100% Appropriation Limit	\$3,841.4
Total Expenditures	\$3,658.5	Prior Year Cash Balance	\$564.7	98% Appropriation Limit	\$3,764.6
		Cumulative Cash Balance	616.4	Prior 98% Appropriation Limit	\$3,753.7
		Less: Continuing Appropriations & Encumbrances from FY 2013	(277.0)	Increase (Decrease) from Prior Meeting	\$10.9
		Less: Budgetary Reserve Account	(\$198.9)	Sept. 2012 98% Appropriation Limit	\$3,658.0
		Unencumbered Cash Balance 6/30	\$140.5	Increase (Decrease) from September 2012	\$106.6

Table 4.

Delaware Department of Transportation										67%
FY 2013 Expenditures, Thru February 28, 2013										
	FY2011 Actual	FY2012 Actual	FY2013 Appropriation	SEPTEMBER FY2013 Forecast	DECEMBER FY2013 Forecast	MARCH FY2013 Forecast	\$ difference	\$ difference Forecast V. FY2012 Actual	FY2013 YTD Spend	% spent YTD
Operations										
Debt Service	123.8	123.8	123.5	123.5	123.5	123.5	0.0	(0.3)	123.5	100.0%
Personnel Costs	84.5	88.1	86.7	86.7	86.7	86.7	0.0	(1.4)	58.1	67.0%
Operations/Capital Outlay	55.3	53.2	56.1	56.1	56.1	56.1	0.0	2.9	36.3	64.7%
Transit Operations (DTC)	73.5	77.5	80.3	80.6	80.6	80.6	0.0	3.1	53.7	66.6%
Total Expenditures - Operations	337.1	342.6	346.6	346.9	346.9	346.9	0.0	4.3	271.6	78.3%
Capital (State)			<u>CTP Spend</u>							
Road System	90.1	144.7	157.6	157.6	150.1	142.1	(8.0)	(2.6)	87.0	61.2%
Grants & Allocations	13.5	15.8	26.8	18.8	18.8	19.7	0.9	3.9	14.8	75.1%
Support Systems	18.9	25.2	30.5	29.5	27.0	24.8	(2.2)	(0.4)	12.4	50.0%
Transit	5.0	5.8	11.2	8.7	8.7	8.2	(0.5)	2.4	2.1	25.6%
Total Expenditures- State Capital	127.5	191.5	226.1	214.6	204.6	194.8	(9.8)	3.3	116.3	59.7%
Capital (Federal)			<u>CTP Spend</u>							
Federal Capital	200.7	213.2	316.8	260.0	260.0	239.0	(21.0)	25.8	139.0	58.2%
Capital (GARVEE)			<u>CTP Spend</u>							
GARVEE - US301	13.8	35.7	65.9	61.3	47.0	31.6	(15.4)	(4.1)	19.7	62.3%
Total Expenditures - Capital	342.0	440.4	608.8	535.9	511.6	465.4	(46.2)	25.0	275.0	59.1%
TOTAL EXPENDITURES	679.1	783.0	955.4	882.8	858.5	812.3	(46.2)	29.3	546.6	67.3%

Table 5.

**DELAWARE DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund Revenues**

	FY 11	FY 12	% Chg.	Fiscal 2013			Fiscal 2014			
				12/17/2012	3/18/2013	% Chg. FY 12	12/17/2012	3/18/2013	% Chg. FY 13	
				Approved	Recomm		Approved	Recomm		
<u>TOLL ROAD REVENUES:</u>										
195 Newark Plaza	\$114.1	\$115.3	1.1%	\$119.1	\$117.3	1.7%	\$121.4	\$119.5	1.9%	
Route 1 Toll Road	84.5	44.9	-46.9%	\$46.7	\$46.7	4.0%	\$47.5	\$47.5	1.7%	
Concessions	<u>1.8</u>	<u>1.8</u>	0.0%	<u>\$2.0</u>	<u>\$2.0</u>	10.7%	<u>\$2.1</u>	<u>\$2.1</u>	2.9%	
Total Toll Road Revenues	200.4	162.0	-19.2%	\$167.8	\$166.0	2.5%	\$171.0	\$169.1	1.8%	
MOTOR FUEL TAX ADMIN.	116.6	115.9	-0.6%	\$116.0	\$116.0	0.1%	\$117.8	\$117.8	1.6%	
<u>DIVISION OF MOTOR VEHICLES</u>										
Motor Vehicle Document Fees	68.3	71.1	4.1%	\$75.5	\$75.5	6.1%	\$77.8	\$77.8	3.0%	
Motor Vehicle Registration Fees	47.2	46.6	-1.3%	\$48.1	\$48.1	3.1%	\$49.5	\$49.5	2.9%	
Other DMV Revenues	<u>24.6</u>	<u>25.0</u>	1.6%	<u>\$25.8</u>	<u>\$25.8</u>	3.1%	<u>\$26.6</u>	<u>\$26.6</u>	3.1%	
Total DMV Revenues	140.1	142.7	1.9%	\$149.4	\$149.4	4.7%	\$153.9	\$153.9	3.0%	
<u>OTHER TRANSPORTATION REV.</u>										
Other Transportation Rev	11.8	11.3	-4.2%	\$11.2	\$11.2	-1.1%	\$11.3	\$11.3	0.9%	
Investment Income(Net)	<u>3.6</u>	<u>3.2</u>	-11.1%	<u>\$2.8</u>	<u>\$2.8</u>	-11.4%	<u>\$3.5</u>	<u>\$3.5</u>	25.0%	
Total Other Transp. Revenue	15.4	14.5	-5.8%	\$14.0	\$14.0	-3.4%	\$14.8	\$14.8	5.7%	
GRAND TOTAL	\$472.5	\$435.1	-7.9%	\$447.2	\$445.4	2.4%	\$457.5	\$455.6	2.3%	
					(\$1.8)			(\$1.9)		