

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

Buena Vista – March 17, 2014

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. Davis	No
J. DiPinto	Yes
F. Dixon	Yes
B. Fasy	Yes
C. Flowers	No
R. Glen	Yes
G. Hindes	Yes
J. Horty	Yes
D. Hudson	No
A. Levin	No

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

Members in Attendance: 22

Members Absent: 11

Others Present: A. Aka, M. Brennan, J. Eisenbrey, R. Geisenberger, D. Gregor, J. Hoover, P. Jackson, J. Johnstone, B. Maxwell, S. McVay, A. Moffett-Batty, B. Motyl, and members of the press.

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

The minutes from the December meeting were approved as submitted.

Expenditure Subcommittee:

Mr. Ratledge presented the Expenditure Subcommittee's report.

He began by reviewing the Balance Sheet estimate. He noted that the Reversions, Encumbered and Continuing estimates were unchanged from December, at \$50.0 million, \$34.0 million and \$221.7 million respectively. He reported that the March Expenditure estimate stands at \$3,794.5 million. (See Table 1a for complete details).

In his review of the Function Sheet estimate, Mr. Ratledge reported that the estimate for Salary has decreased from the December estimate. He noted, however, that the estimate for Health Care continues to increase. The Pension estimate is also larger in March than it was in December, reflecting an older workforce. Mr. Ratledge noted that estimates for Medicaid and Grants were unchanged from December. He pointed out that 218,000 Delawareans are enrolled in Medicaid. Finally Mr. Ratledge reported that estimates for Contractual Services, Debt Service, Supplies and Materials, and Capital Outlay were unchanged from December (See Table 1b for complete details).

In response to a question from Mr. Harty, Mr. Ratledge said that the number of people enrolled in Medicaid is expected to balloon to 250,000 over the next three years, on the back of a program expansion that will expand coverage to 133 percent of Federal Poverty Level for childless adults. In response to a question from Mr. Swayze, Mr. Maxwell reported that Delaware's Federal Medical Assistance Percentage (FMAP) has dropped from 55 percent to 53 percent, leading to \$26 million decrease in federal matching funds that will be received by the State in FY2015.

For informational purposes, Mr. Ratledge presented two charts which tracked the long-term revenue and expenditure forecasts. Two additional charts were also presented that disaggregated expenditures by Fund type and Department. Finally, Mr. Ratledge presented a chart that showed the distribution of non-appropriated special funds expenditure.

A motion was made, seconded and approved to accept \$3,794.5 million as the expenditure estimate for FY2014. This represents a \$136 million increase over FY2013 expenditures.

Revenue Subcommittee:

Mr. Lewis presented the Revenue Subcommittee's report.

Economic Outlook

Mr. Aka reviewed the IHS Global Insight's U.S. macroeconomic forecast. He noted that

the outlook for the U.S. economy is positive, leading to gradually rising growth rates of key variables over the next few years. He reported that the FY2014 growth forecasts for U.S. Personal Income and U.S. Wages and Salaries were revised down from December, primarily on the back of data revisions.

Because of the large growth revision at the national level, Delaware's Personal Income growth forecast was also revised down significantly. Mr. Aka reported that the employment outlook remains positive in Delaware, with job growth expected to average 2 percent in the next three years. Job growth was revised upward from December, reflecting more employment due to the state's latest economic development "wins".

Mr. Dixon largely concurred with IHS Global Insight's short and medium term economic forecasts. He mentioned that leading indicators are currently positive. However, he does not expect real GDP growth rates of 3 – 4 percent to be sustainable beyond FY2015 because of the record low labor force participation rate.

Finally, Mr. Aka presented a special topic that dealt with the Characteristics of Taxpayers in Delaware using the Tax Tape Data. Mr. Gregor pointed that the special topic was not offered as a commentary on the State's tax system or income distribution. Mr. Aka showed that Adjusted Gross Income (AGI) of upper-income individuals has exhibited great volatility over the business cycles.

In response to questions from Mr. Shopa and Mr. Hindes, Mr. Aka reported that every percentile group has benefitted from an increase in their AGIs overtime, but that upper-income individuals derive a large proportion of their income from business and investment. Mr. Gregor added that there was strong correlation between Personal Income Tax collections and changes in AGI at the top percentiles.

General Fund Revenues - Fiscal Year 2014:

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

Revenue Category	Dec-13	Mar-14	Change
Corporation Income Tax	239.0	195.0	(44.0)
Other Refunds	(45.8)	(74.8)	(29.0)
CIT Refunds	(45.6)	(72.0)	(26.4)
Personal Income Tax	1,372.7	1,392.4	19.7
Abandoned Property	514.0	500.0	(14.0)
Estate Tax	12.0	4.5	(7.5)
Franchise Tax	608.6	615.3	6.7
Lottery	224.1	218.8	(5.3)
Bank Franchise Tax	102.7	99.0	(3.7)
Gross Receipts Tax	232.0	229.0	(3.0)
Dividends and Interest	7.6	5.0	(2.6)
Limited Partnerships & LLC's	190.3	191.8	1.5
PIT Refunds	(200.2)	(201.2)	(1.0)
Corporate Fees	94.3	94.7	0.4
Other Revenues	92.4	92.8	0.4

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

Discussion of FY 2014 Estimates:

Personal Income Tax: Mr. Lewis stated that the increase in the estimate was mostly attributed to an accounting error, i.e., a payment made in error by an employer. He mentioned that Estimated PIT and Final PIT estimates were reduced from December.

Franchise Tax: Mr. Lewis said that the increase in the estimate reflected continued strength in the IPO market as well as the general direction of the stock market.

Corporate Income Tax: Mr. Lewis stated that the sharp decrease in the estimate was due to several factors: the resolution of a large refund claim that has raised CIT Refunds and a delay in the collection of an IRS based audit into the next fiscal year. He said that the change in Corporate Income Tax estimate accounts for the bulk of the change in Net Receipts for the ongoing fiscal year.

Bank Franchise Tax: Mr. Lewis said that the decrease in the estimate was due to an issue with a single taxpayer.

Lottery: Mr. Lewis stated that the decrease in the estimate was due to recent harsh weather and the slow start of the internet gaming.

Abandoned Property: Mr. Lewis said that the decline in the estimate was due

to softer enforcement collections.

Other Refunds: Mr. Lewis said that the large increase in the estimate was due to higher refunds for Abandoned Property and a refund to the employer that made a payment error.

Other changes were attributed to tracking.

FY 2014 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,622.0 million as the revenue estimate for FY2014.

The estimate represents a \$107.8 million decrease from DEFAC's December estimate and an adjusted growth rate of 0.25%.

General Fund Revenues - Fiscal Year 2015:

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

Revenue Category	Dec-13	Mar-14	Change
Corporation Income Tax	198.2	275.0	76.8
Franchise Tax	602.5	615.3	12.8
Lottery	224.8	215.4	(9.4)
Bank Franchise Tax	109.5	101.4	(8.1)
Gross Receipts Tax	236.6	233.5	(3.1)
Dividends and Interest	9.5	7.0	(2.5)
Estate Tax	12.0	10.0	(2.0)
Limited Partnerships & LLC's	199.9	201.4	1.5
Other Revenues	98.7	100.0	1.3
Personal Income Tax	1,434.4	1,435.5	1.1
PIT Refunds	(210.0)	(211.0)	(1.0)
Corporate Fees	97.1	97.6	0.5
Hospital Board and Treatment	47.9	47.5	(0.4)

For a complete listing of FY 2015 estimates, see Table 2.

Discussion of FY 2015 Estimates:

Personal Income Tax: Mr. Lewis said that the increase in the estimate was due to carrying forward of the FY2014 changes after netting out the accounting

error.

Franchise Tax: Mr. Lewis said that the increase in the estimate was due to expectation of continued strong IPO market.

Corporate Income Tax: Mr. Lewis stated that the increase in the estimate was due to the deferral of the IRS audit and a reassessment of its magnitude.

Lottery: Mr. Lewis stated that the decrease in the estimate was due to increased competition from neighboring states and carrying forward of changes made in FY2014.

Mr. Lewis reported that all other changes reflected the carrying forward of changes made in FY2014 and maintaining previous growth rates.

FY 2015 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,842.3 million as the revenue estimate for FY2015.

The estimate represents an increase of \$67.5 million from the September estimate and an adjusted growth rate of 3.50%.

For information purposes, Mr. Lewis said that the FY2016 revenue estimate is \$3,873.0 million, while the adjusted growth rate is 3.50%.

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: The estimate was raised from \$344.5 million to \$354.9 million. Mr. Motyl explained that Personnel Costs estimate has been raised back to its original value. He reported that the higher estimate for Operations/Capital Outlay represented a transfer designed to cover rising storm costs.

State Capital Expenditure: The estimate was decreased from \$191.7 million

to \$180.4 million. Mr. Motyl explained that the decrease was due to delays of various projects due to weather, as well as a tracking change.

Federal Capital Expenditure: The estimate was reduced from \$270.0 million to \$240.0 million. Mr. Motyl explained that the decrease was due to project delays.

GARVEE – US301 Capital Expenditure: The estimate was reduced from \$28.2 million to \$21.0 million. Mr. Motyl explained that the decrease was due to real estate acquisition issues.

A motion was made, seconded, and approved to accept \$796.3 million as the FY2014 TTF expenditure estimate. The estimate represents a decrease of \$38.1 million from December's estimate (See Table 4).

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

FY2014 Estimates:

Toll Road Revenues: There was no change from December's estimate of \$169.5 million.

Motor Fuel Tax Administration: There was no change from December's estimate of \$114.1 million.

Division of Motor Vehicles: There was no change from December's estimate of \$160.8 million.

Other Transportation Revenue: There was no change from December's estimate of \$13.8 million.

A motion was made, seconded, and approved to accept \$458.2 million as the FY2014 TTF revenue estimate. The estimate is unchanged from December.

FY2015 Estimates:

The following changes were made from the December estimate.

Toll Road Revenues: There was no change from December's estimate of \$172.5 million.

Motor Fuel Tax Administration: There was no change from December's estimate of \$113.2 million.

Division of Motor Vehicles: There was no change from December's estimate of \$165.7 million.

Other Transportation Revenue: There was no change from December's estimate of \$14.4 million.

A motion was made, seconded, and approved to accept \$465.8 million as the FY2015 TTF revenue estimate. The estimate is unchanged from December (See Table 5).

Other Business:

Mr. Martin announced the next scheduled DEFAC meeting dates:

- April 21, 2014
- May 19, 2014
- June 16, 2014

There being no further business, Mr. Martin adjourned the meeting at 4:12 p.m.

Respectfully submitted,

Arsene Aka

Table 2.
DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2013		FY 2014					FY 2015				
	A Actual Collections		B DEFAC Dec-13	C % B over A	D DEFAC Mar-14	E % D over A	F \$ Increase D over B	G DEFAC Dec-13	H % G over B	I DEFAC Mar-14	J % I over D	K \$ Increase I over G
Personal Income Tax	1,318.9		1,372.7	4.1%	1,392.4	5.6%	19.7	1,434.4	4.5%	1,435.5	3.1%	1.1
Less: Refunds	<u>(179.1)</u>		<u>(200.2)</u>	11.8%	<u>(201.2)</u>	12.3%	<u>(1.0)</u>	<u>(210.0)</u>	4.9%	<u>(211.0)</u>	4.9%	<u>(1.0)</u>
PIT Less Refunds	1,139.8		1,172.5	2.9%	1,191.2	4.5%	18.7	1,224.4	4.4%	1,224.5	2.8%	0.1
Franchise Tax	605.6		608.6	0.5%	615.3	1.6%	6.7	602.5	-1.0%	615.3	0.0%	12.8
Limited Partnerships & LLC's	179.9		<u>190.3</u>	5.8%	<u>191.8</u>	6.6%	1.5	<u>199.9</u>	5.0%	<u>201.4</u>	5.0%	1.5
Subtotal Franchise + LP/LLC	785.5		798.9	1.7%	807.1	2.8%	8.2	802.4	0.4%	816.7	1.2%	14.3
Less: Refunds	<u>(8.7)</u>		<u>(10.0)</u>	14.4%	<u>(10.0)</u>	14.4%	<u>0.0</u>	<u>(10.0)</u>	0.0%	<u>(10.0)</u>	0.0%	<u>0.0</u>
Net Franchise + LP/LLC	776.7		788.9	1.6%	797.1	2.6%	8.2	792.4	0.4%	806.7	1.2%	14.3
Business Entity Fees	89.8		94.3	5.0%	94.7	5.4%	0.4	97.1	3.0%	97.6	3.1%	0.5
Uniform Commercial Code	16.9		17.4	2.8%	17.4	2.8%	0.0	17.8	2.3%	17.8	2.3%	0.0
Corporation Income Tax	205.7		239.0	16.2%	195.0	-5.2%	(44.0)	198.2	-17.1%	275.0	41.0%	76.8
Less: Refunds	<u>(17.8)</u>		<u>(45.6)</u>	156.5%	<u>(72.0)</u>	305.0%	<u>(26.4)</u>	<u>(42.6)</u>	-6.6%	<u>(42.6)</u>	-40.8%	0.0
CIT Less Refunds	187.9		193.4	2.9%	123.0	-34.5%	(70.4)	155.6	-19.5%	232.4	88.9%	76.8
Bank Franchise Tax	103.5		102.7	-0.8%	99.0	-4.4%	(3.7)	109.5	6.6%	101.4	2.4%	(8.1)
Gross Receipts Tax	226.3		232.0	2.5%	229.0	1.2%	(3.0)	236.6	2.0%	233.5	2.0%	(3.1)
Lottery	235.3		224.1	-4.8%	218.8	-7.0%	(5.3)	224.8	0.3%	215.4	-1.6%	(9.4)
Abandoned Property	566.5		514.0	-9.3%	500.0	-11.7%	(14.0)	514.0	0.0%	514.0	2.8%	0.0
Hospital Board and Treatment	59.7		47.5	-20.4%	47.5	-20.4%	0.0	47.9	0.8%	47.5	0.0%	(0.4)
Dividends and Interest	6.3		7.6	21.0%	5.0	-20.4%	(2.6)	9.5	25.0%	7.0	40.0%	(2.5)
Realty Transfer Tax	42.3		63.0	49.1%	63.0	49.1%	0.0	61.0	-3.2%	61.0	-3.2%	0.0
Estate Tax	5.3		12.0	126.5%	4.5	-15.1%	(7.5)	12.0	0.0%	10.0	122.2%	(2.0)
Insurance Taxes	53.9		54.3	0.7%	54.3	0.7%	0.0	56.6	4.2%	56.6	4.2%	0.0
Public Utility Tax	44.5		47.0	5.7%	47.0	5.7%	0.0	47.0	0.0%	47.0	0.0%	0.0
Cigarette Taxes	115.2		112.5	-2.3%	112.5	-2.3%	0.0	109.8	-2.4%	109.8	-2.4%	0.0
Other Revenues	89.6		92.4	3.1%	92.8	3.5%	0.4	98.7	6.8%	100.0	7.8%	1.3
Less: Other Refunds	<u>(29.8)</u>		<u>(45.8)</u>	53.9%	<u>(74.8)</u>	151.3%	<u>(29.0)</u>	<u>(39.9)</u>	-12.9%	<u>(39.9)</u>	-46.7%	0.0
Net Receipts	3,729.8		3,729.8	0.0%	3,622.0	-2.9%	(107.8)	3,774.8	1.2%	3,842.3	6.1%	67.5

Adjusted Growth Rate

0.25%

3.50%

FY 2015 Debt Limit: \$192.115

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2016					P \$ Increase N over L
	L DEFAC Dec-13	M % L over G	N DEFAC Mar-14	O % N over I		
Personal Income Tax	1,503.0	4.8%	1,504.2	4.8%	1.2	
Less: Refunds	(223.7)	6.5%	(224.8)	6.5%	(1.1)	
PIT Less Refunds	1,279.3	4.5%	1,279.4	4.5%	0.1	
Franchise Tax	602.5	0.0%	615.3	0.0%	12.8	
Limited Partnerships & LLC's	209.8	5.0%	211.4	5.0%	1.6	
Subtotal Franchise + LP/LLC	812.3	1.2%	826.7	1.2%	14.4	
Less: Refunds	(10.0)	0.0%	(10.0)	0.0%	0.0	
Net Franchise + LP/LLC	802.3	1.2%	816.7	1.2%	14.4	
Business Entity Fees	100.0	3.0%	100.5	3.0%	0.5	
Uniform Commercial Code	18.1	1.7%	18.1	1.7%	0.0	
Corporation Income Tax	202.2	2.0%	205.0	-25.5%	2.8	
Less: Refunds	(42.6)	0.0%	(42.6)	0.0%	0.0	
CIT Less Refunds	159.6	2.6%	162.4	-30.1%	2.8	
Bank Franchise Tax	115.1	5.1%	106.2	4.7%	(8.9)	
Gross Receipts Tax	247.9	4.8%	244.7	4.8%	(3.2)	
Lottery	230.4	2.5%	220.8	2.5%	(9.6)	
Abandoned Property	514.0	0.0%	514.0	0.0%	0.0	
Hospital Board and Treatment	46.8	-2.3%	46.8	-1.5%	0.0	
Dividends and Interest	11.9	25.3%	10.0	42.9%	(1.9)	
Realty Transfer Tax	66.0	8.2%	66.0	8.2%	0.0	
Estate Tax	12.0	0.0%	10.0	0.0%	(2.0)	
Insurance Taxes	63.0	11.3%	63.0	11.3%	0.0	
Public Utility Tax	48.7	3.6%	48.7	3.6%	0.0	
Cigarette Taxes	107.6	-2.0%	107.6	-2.0%	0.0	
Other Revenues	96.7	-2.0%	98.0	-2.0%	1.3	
Less: Other Refunds	(39.9)	0.0%	(39.9)	0.0%	0.0	
Net Receipts	3,879.5	2.8%	3,873.0	0.8%	(6.5)	

Adjusted Growth Rate

3.50%

**Table 3.
Balance and Appropriations Worksheet**

FY 2014 EXPENDITURES		FY 2014 BALANCES		FY 2015 APPROPRIATION LIMITS	
Total Spending Authority	\$4,100.2	Total Expenditures	\$3,794.5	FY 2015 Revenue Estimate	\$3,842.3
Less: Continuing Appropriations & Encumbrances from FY 2014	(\$255.7)	vs. FY 2014 Revenues	3,622.0	Unencumbered Cash Balance from FY 14	\$6.0
Less: Reversions	(\$50.0)	Operating Balance	(172.5)	100% Appropriation Limit	\$3,848.3
Total Expenditures	\$3,794.5	Prior Year Cash Balance	\$635.9	98% Appropriation Limit	\$3,771.3
		Cumulative Cash Balance	463.4	Prior 98% Appropriation Limit	\$3,810.8
		Less: Continuing Appropriations & Encumbrances from FY 2014	(255.7)	Increase (Decrease) from Prior Meeting	(\$39.5)
		Less: Budgetary Reserve Account	(\$201.7)	Sept. 2013 98% Appropriation Limit	\$3,768.6
		Unencumbered Cash Balance 6/30	\$6.0	Increase (Decrease) from September 2013	\$2.7

Table 4.

Delaware Department of Transportation
 FY 2014 Expenditures, Thru February 28, 2013

	FY2012 Actual	FY2013 Actual	FY2014 Appropriation	SEPTEMBER FY2014 Forecast	DECEMBER FY2014 Forecast	MARCH FY2014 Forecast	\$ difference	\$ difference Forecast V. FY2013 Actual	FY2014 YTD Spend	% spent YTD
<u>Operations</u>										67%
Debt Service	123.8	123.5	112.3	112.3	112.3	112.3	0.0	0.0	112.3	100.0%
Personnel Costs	88.1	86.5	89.1	89.1	87.7	89.1	1.4	2.6	57.1	64.1%
Operations/Capital Outlay	53.2	56.9	57.2	57.2	60.6	69.6	9.0	12.7	41.9	60.2%
Transit Operations (DTC)	77.5	83.0	83.9	83.9	83.9	83.9	0.0	0.9	55.9	66.6%
Total Expenditures - Operations	342.6	349.9	342.5	342.5	344.5	354.9	10.4	5.0	267.2	75.3%
<u>Capital (State)</u>			<u>CTP Spend</u>							
Road System	144.7	134.6	108.2	108.2	108.2	100.8	(7.4)	(33.8)	66.7	66.2%
Grants & Allocations	15.8	20.9	21.8	21.8	21.8	20.8	(1.0)	(0.1)	12.6	60.6%
Support Systems	25.2	27.0	46.5	46.5	46.5	45.5	(1.0)	18.5	21.8	47.9%
Transit	5.8	5.5	15.2	15.2	15.2	13.3	(1.9)	7.8	3.4	25.6%
Total Expenditures- State Capital	191.5	188.0	191.7	191.7	191.7	180.4	(11.3)	(7.6)	104.5	57.9%
<u>Capital (Federal)</u>			<u>CTP Spend</u>							
Federal Capital	213.2	214.5	347.8	305.3	270.0	240.0	(30.0)	25.5	115.5	48.1%
<u>Capital (GARVEE)</u>			<u>CTP Spend</u>							
GARVEE - US301	35.7	26.9	28.2	28.2	28.2	21.0	(7.2)	(5.9)	5.6	26.7%
Total Expenditures - Capital	440.4	429.4	567.7	525.2	489.9	441.4	(48.5)	12.0	225.6	51.1%
TOTAL EXPENDITURES	783.0	779.3	910.2	867.7	834.4	796.3	(38.1)	17.0	492.8	61.9%

