

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

Buena Vista – June 16, 2014

Attendance:

Member	Present
S. Bhatt	No
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	No
B. Fasy	No
C. Flowers	Yes
R. Glen	Yes
G. Hindes	Yes
J. Horty	Yes
D. Hudson	Yes
A. Levin	Yes

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

Members in Attendance: 21

Members Absent: 12

Others Present: A. Aka, M. Brennan, P. Carter, K. Dwyer, J. Eisenbrey, D. Gregor, J. Hummel, J. Johnstone, K. Knight, A. Moffett-Batty, R. Morris, B. Motyl, A. Penney, J. Seemans, R. Scoglietti, S. Scola, C. Stewart, M. Vaught and members of the press.

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

The minutes from the May meeting were approved as submitted.

Expenditure Subcommittee:

Mr. Ratledge presented the Expenditure Subcommittee's report.

He reported that on the Balance Sheet estimate; the Reversion estimate was raised from \$104.6 million in May to \$110.3 million in June, while the Continuing estimate was decreased from \$184 million to \$181 million during the same period. The estimate for Encumbered was unchanged at \$34 million. (See Table 1a for complete details).

Mr. Ratledge also reviewed the Function Sheet estimate. He reported that the estimate for Salaries was decreased by \$2 million, while the Pension estimate was increased by the same amount. Meanwhile, the Medicaid estimate was reduced by \$3 million on the back of prescription rebates and transfers of funds from the General Fund to the Appropriated Special Fund. Meanwhile, the estimates for Contractual Services and Capital Outlay were reduced by \$1 million and \$0.5 million respectively. (See Table 1b for complete details).

A motion was made, seconded and approved to accept \$3,774.9 million as the expenditure estimate for FY 2014. The estimate represents a decrease of \$2.7 million from the May estimate.

Revenue Subcommittee:

Mr. Ratledge presented the Revenue Subcommittee's report.

Economic Outlook

Mr. Aka reviewed the IHS Economics' U.S. macroeconomic forecast. He reported that IHS Economics has reduced its Real GDP growth forecast for the current fiscal year on the back of the latest, downward revision of the first-quarter growth estimate. He added that the short term national economic outlook has decreased slightly because of decreased outlook for both the Housing and Employment sectors.

As a result of this reduced U.S. economic outlook, Delaware's FY 2015 Personal Income growth forecast was also reduced. Mr. Aka noted that Delaware's short term economic outlook is slightly better than the nation's.

General Fund Revenues - Fiscal Year 2014:

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

Revenue Category	May-14	Jun-14	Change
Abandoned Property	455.0	469.0	14.0
PIT Refunds	(210.0)	(200.0)	10.0
Corporation Income Tax	175.0	170.0	(5.0)
Lottery	220.7	216.5	(4.2)
Bank Franchise Tax	99.0	102.9	3.9
Realty Transfer Tax	63.8	60.5	(3.3)
Limited Partnerships & LLC's	192.8	196.1	3.3
Franchise Tax	629.6	627.5	(2.1)
Personal Income Tax	1,385.4	1,383.4	(2.0)
Other Revenues	92.9	91.1	(1.8)
CIT Refunds	(72.0)	(70.5)	1.5
Gross Receipts Tax	226.0	227.4	1.4
Hospital Board and Treatment	48.2	49.3	1.1
Cigarette Taxes	114.0	113.0	(1.0)
Public Utility Tax	46.2	46.7	0.5
Insurance Taxes	53.9	54.3	0.4
Uniform Commercial Code	17.4	17.1	(0.3)
Dividends and Interest	3.0	2.8	(0.2)
Estate Tax	1.2	1.3	0.1

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

Discussion of FY 2014 Estimates:

Personal Income Tax: Mr. Ratledge said that PIT estimate has been reduced by \$2 million.

PIT Refunds: Mr. Ratledge said that the increase in the estimate (representing an actual decrease in Refunds) can be attributed to faster processing. In response to a question from Mr. Hindes, Mr. Gregor said that a comprehensive review of the Department of Finance's practices and exceptions processing was made last summer. As a result, processing is faster and more resources have been devoted to clearing backlogs.

Net Franchise Tax & LP/LLC: Mr. Ratledge stated that the increase in the estimate was due to higher LLC collections, which more than offset the decrease in Franchise Tax estimate.

Corporate Income Tax: Mr. Ratledge said that CIT estimate was reduced by \$5 million. Mr. Gregor added that quarterly payments were due on the DEFAC meeting day (June 16). He noted that the estimate was reasonable but could change depending on receipts.

Bank Franchise Tax: Mr. Ratledge attributed the increase in the estimate to a timing issue. Mr. Glen explained that some taxpayers are making estimated payments based on the safe harbor of last year's actual tax liability, causing a shift in revenue from FY 2015 to FY 2014, with no net gain.

Lottery: Mr. Ratledge stated that the estimate fell by \$4.2 million. Mr. Gregor explained that revenue collections in Video Lottery, I-Gaming and Traditional Lottery have been softer-than-previously anticipated. In response to a question from Mr. Ratledge, Mr. Gregor said that the Baltimore Horseshoe Facility was supposed to open in late summer. He noted that most of the revenue impact due to the opening of that facility will fall on Maryland's own casinos.

Abandoned Property: Mr. Ratledge said that the estimate was raised by \$14 million. Mr. Gregor explained that such an increase can be attributed to 3 factors: robust revenue generated by the Secretary of State's VDA program, a large audit settlement completed this year instead of next year, and good timing for the sale of a large amount of securities. Mr. Bullock added that the VDA program was running smoothly.

Realty Transfer Tax: Mr. Ratledge said that the decrease in the estimate reflected the fact that the housing market was not recovering as rapidly as expected.

All remaining changes were attributed to tracking.

FY 2014 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,564.7 million as the revenue estimate for FY 2014.

The estimate represents a \$16.3 million increase from DEFAC's May estimate and a year-on-year adjusted growth rate of -0.25%.

General Fund Revenues - Fiscal Year 2015:

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

Revenue Category	May-14	Jun-14	Change
PIT Refunds	(220.3)	(209.8)	10.5
Corporation Income Tax	260.0	255.0	(5.0)
Bank Franchise Tax	101.4	97.5	(3.9)
Realty Transfer Tax	65.0	61.2	(3.8)
Limited Partnerships & LLC's	236.0	239.5	3.5
Lottery	218.6	216.1	(2.5)
Franchise Tax	653.8	651.7	(2.1)
Personal Income Tax	1,438.1	1,436.1	(2.0)
Other Revenues	101.3	99.8	(1.5)
Gross Receipts Tax	230.5	231.9	1.4
Cigarette Taxes	111.7	110.7	(1.0)
Insurance Taxes	56.7	55.9	(0.8)
Hospital Board and Treatment	47.8	48.2	0.4
Uniform Commercial Code	17.8	17.5	(0.3)

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

Discussion of FY 2015 Estimates:

Franchise Tax: Mr. Ratledge stated that the estimate was decreased by \$2.1 million. He noted that a tax law change was in effect during that year.

Bank Franchise Tax: Mr. Ratledge said the decrease in the estimate reflected a timing issue, with some of the FY 2015 proceeds being shifted into FY 2014.

Abandoned Property: Mr. Ratledge said that the estimate was left unchanged from last month, at its cap. He added that the gross figure for this revenue category is expected to be higher than the cap.

Mr. Ratledge reported that all other changes reflected the carrying forward of changes made in FY 2014 and maintaining previous growth rates.

FY 2015 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,890.0 million as the revenue estimate for

FY 2015.

The estimate represents a decrease of \$7.1 million from the May estimate and a year-over-year adjusted growth rate of 4.75%.

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: Ms. Penney presented the Transportation Trust Fund's expenditure forecast.

State Operations Expenditure: There was no change from May's estimate of \$357.2 million, as the decrease in Personnel Costs estimate was offset by a corresponding increase in the estimate for Operations/Capital Outlays.

State Capital Expenditure: The estimate was unchanged at \$168.3 million.

Federal Capital Expenditure: The estimate was reduced from \$213.0 million in May to \$201.0 million in June. Ms. Penney explained that some Federal projects are now expected to be completed in the next fiscal year.

GARVEE – US301 Capital Expenditure: The estimate was unchanged at \$7.0 million.

A motion was made, seconded, and approved to accept \$733.5 million as the FY 2014 TTF expenditure estimate. The estimate represents a decrease of \$12 million from May's estimate (See Table 4).

TTF -- Revenues: Ms. Penney presented the Transportation Trust Fund's revenue forecast.

FY2014 Estimates:

Toll Road Revenues: There was no change from May's estimate of \$166.5 million. Ms. Penney noted that the June estimate did not take into account recent traffic problems associated with the I-495 bridge closure. She expected the September forecast to take these issues into consideration.

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

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

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

A motion was made, seconded, and approved to accept \$455.2 million as the FY 2014 TTF revenue estimate. The estimate is unchanged from the May estimate.

FY2015 Estimates:

The following changes were made from the May estimate.

Toll Road Revenues: There was no change from May's estimate of \$168.4 million.

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

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

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

A motion was made, seconded, and approved to accept \$461.7 million as the FY 2015 TTF revenue estimate. The estimate is unchanged from the May estimate (See Table 5).

Other Business:

FY2015 Debt Limit: Mr. Gregor presented the debt limit for FY2015. This amount is equal to 5% of projected FY2015 revenues or \$194.5 million.

Mr. Martin announced the next scheduled DEFAC meeting dates:

- September 15, 2014
- December 15, 2014

Mr. Gregor said that the September meeting will probably start at 12:30 p.m. since it

will include a discussion of long-term forecasts.

There being no further business, Mr. Martin adjourned the meeting at 3:33 p.m.

Respectfully submitted,

Arsene Aka

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2013		FY 2014					FY 2015				
	A Actual Collections		B DEFAC May-14	C % B over A	D DEFAC Jun-14	E % D over A	F \$ Increase D over B	G DEFAC May-14	H % G over B	I DEFAC Jun-14	J % I over D	K \$ Increase I over G
Personal Income Tax	1,318.9		1,385.4	5.0%	1,383.4	4.9%	(2.0)	1,438.1	3.8%	1,436.1	3.8%	(2.0)
Less: Refunds	(179.1)		(210.0)	17.2%	(200.0)	11.7%	10.0	(220.3)	4.9%	(209.8)	4.9%	10.5
PIT Less Refunds	1,139.8		1,175.4	3.1%	1,183.4	3.8%	8.0	1,217.8	3.6%	1,226.3	3.6%	8.5
Franchise Tax	605.6		629.6	4.0%	627.5	3.6%	(2.1)	653.8	3.8%	651.7	3.9%	(2.1)
Limited Partnerships & LLC's	179.9		192.8	7.2%	196.1	9.0%	3.3	236.0	22.4%	239.5	22.1%	3.5
Subtotal Franchise + LP/LLC	785.5		822.4	4.7%	823.6	4.9%	1.2	889.8	8.2%	891.2	8.2%	1.4
Less: Refunds	(8.7)		(7.0)	-19.9%	(7.0)	-19.9%	0.0	(10.0)	42.9%	(10.0)	42.9%	0.0
Net Franchise + LP/LLC	776.7		815.4	5.0%	816.6	5.1%	1.2	879.8	7.9%	881.2	7.9%	1.4
Business Entity Fees	89.8		95.7	6.6%	95.7	6.6%	0.0	98.6	3.0%	98.6	3.0%	0.0
Uniform Commercial Code	16.9		17.4	2.8%	17.1	1.0%	(0.3)	17.8	2.3%	17.5	2.3%	(0.3)
Corporation Income Tax	205.7		175.0	-14.9%	170.0	-17.4%	(5.0)	260.0	48.6%	255.0	50.0%	(5.0)
Less: Refunds	(17.8)		(72.0)	305.0%	(70.5)	296.6%	1.5	(42.6)	-40.8%	(42.6)	-39.6%	0.0
CIT Less Refunds	187.9		103.0	-45.2%	99.5	-47.1%	(3.5)	217.4	111.1%	212.4	113.5%	(5.0)
Bank Franchise Tax	103.5		99.0	-4.4%	102.9	-0.6%	3.9	101.4	2.4%	97.5	-5.2%	(3.9)
Gross Receipts Tax	226.3		226.0	-0.1%	227.4	0.5%	1.4	230.5	2.0%	231.9	2.0%	1.4
Lottery	235.3		220.7	-6.2%	216.5	-8.0%	(4.2)	218.6	-1.0%	216.1	-0.2%	(2.5)
Abandoned Property	566.5		455.0	-19.7%	469.0	-17.2%	14.0	514.0	13.0%	514.0	9.6%	0.0
Hospital Board and Treatment	59.7		48.2	-19.2%	49.3	-17.4%	1.1	47.8	-0.8%	48.2	-2.2%	0.4
Dividends and Interest	6.3		3.0	-52.2%	2.8	-55.4%	(0.2)	5.0	66.7%	5.0	78.6%	0.0
Realty Transfer Tax	42.3		63.8	51.0%	60.5	43.2%	(3.3)	65.0	1.9%	61.2	1.2%	(3.8)
Estate Tax	5.3		1.2	-77.3%	1.3	-75.5%	0.1	7.0	483.3%	7.0	438.5%	0.0
Insurance Taxes	53.9		53.9	-0.1%	54.3	0.7%	0.4	56.7	5.2%	55.9	2.9%	(0.8)
Public Utility Tax	44.5		46.2	3.9%	46.7	5.0%	0.5	46.2	0.0%	46.2	-1.1%	0.0
Cigarette Taxes	115.2		114.0	-1.0%	113.0	-1.9%	(1.0)	111.7	-2.0%	110.7	-2.0%	(1.0)
Other Revenues	89.6		92.9	3.6%	91.1	1.6%	(1.8)	101.3	9.0%	99.8	9.5%	(1.5)
Less: Other Refunds	(29.8)		(82.4)	176.8%	(82.4)	176.8%	0.0	(39.5)	-52.1%	(39.5)	-52.1%	0.0
Net Receipts	3,729.8		3,548.4	-4.9%	3,564.7	-4.4%	16.3	3,897.1	9.8%	3,890.0	9.1%	(7.1)

Adjusted Growth Rate

-0.25%

4.75%

FY 2015 Debt Limit:

\$194,500

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2016						P \$ Increase N over L
	L DEFAC May-14	M % L over G	N DEFAC Jun-14	O % N over I			
Personal Income Tax	1,507.0	4.8%	1,504.7	4.8%		(2.3)	
Less: Refunds	(234.6)	6.5%	(223.4)	6.5%		11.2	
PIT Less Refunds	1,272.4	4.5%	1,281.3	4.5%		8.9	
Franchise Tax	653.8	0.0%	651.7	0.0%		(2.1)	
Limited Partnerships & LLC's	246.1	4.3%	249.8	4.3%		3.7	
Subtotal Franchise + LP/LLC	899.9	1.1%	901.5	1.2%		1.6	
Less: Refunds	(10.0)	0.0%	(10.0)	0.0%		0.0	
Net Franchise + LP/LLC	889.9	1.1%	891.5	1.2%		1.6	
Business Entity Fees	101.6	3.0%	101.6	3.0%		0.0	
Uniform Commercial Code	18.1	1.7%	17.8	1.7%		(0.3)	
Corporation Income Tax	195.0	-25.0%	190.0	-25.5%		(5.0)	
Less: Refunds	(42.6)	0.0%	(42.6)	0.0%		0.0	
CIT Less Refunds	152.4	-29.9%	147.4	-30.6%		(5.0)	
Bank Franchise Tax	103.4	2.0%	103.4	6.1%		0.0	
Gross Receipts Tax	241.5	4.8%	243.0	4.8%		1.5	
Lottery	224.1	2.5%	221.5	2.5%		(2.6)	
Abandoned Property	514.0	0.0%	495.0	-3.7%		(19.0)	
Hospital Board and Treatment	47.5	-0.6%	47.9	-0.6%		0.4	
Dividends and Interest	8.0	60.0%	8.0	60.0%		0.0	
Realty Transfer Tax	69.9	7.5%	65.8	7.5%		(4.1)	
Estate Tax	7.0	0.0%	7.0	0.0%		0.0	
Insurance Taxes	63.2	11.5%	57.5	2.9%		(5.7)	
Public Utility Tax	47.8	3.5%	47.8	3.5%		0.0	
Cigarette Taxes	109.5	-2.0%	108.5	-2.0%		(1.0)	
Other Revenues	99.4	-1.9%	95.8	-4.0%		(3.6)	
Less: Other Refunds	(38.9)	-1.5%	(38.9)	-1.5%		0.0	
Net Receipts	3,930.8	0.9%	3,901.9	0.3%		(28.9)	

Adjusted Growth Rate

3.25%

**Table 3.
Balance and Appropriations Worksheet**

FY 2014 EXPENDITURES		FY 2014 BALANCES		FY 2015 APPROPRIATION LIMITS	
Total Spending Authority	\$4,100.2	Total Expenditures	\$3,774.9	FY 2015 Revenue Estimate	\$3,890.0
Less: Continuing Appropriations & Encumbrances from FY 2014	(\$215.0)	vs. FY 2014 Revenues	3,564.7	Unencumbered Cash Balance from FY 14	<u>\$9.0</u>
Less: Reversions	<u>(\$110.3)</u>	Operating Balance	(210.2)	100% Appropriation Limit	\$3,899.0
Total Expenditures	\$3,774.9	Prior Year Cash Balance	<u>\$635.9</u>	98% Appropriation Limit	<u>\$3,821.0</u>
		Cumulative Cash Balance	425.7	Prior 98% Appropriation Limit	\$3,806.4
		Less: Continuing Appropriations & Encumbrances from FY 2014	(215.0)	Increase (Decrease) from Prior Meeting	\$14.6
		Less: Budgetary Reserve Account	<u>(\$201.7)</u>	Sept. 2013 98% Appropriation Limit	\$3,768.6
		Unencumbered Cash Balance 6/30	<u>\$9.0</u>	Increase (Decrease) from September 2013	\$52.4

Table 4.

**Delaware Department of Transportation
FY 2014 Expenditures, Thru May 31, 2014**

	FY2012 Actual	FY2013 Actual	FY2014 Appropriation	SEPTEMBER FY2014 Forecast	DECEMBER FY2014 Forecast	MARCH FY2014 Forecast	APRIL FY2014 Forecast	MAY FY2014 Forecast	JUNE FY2014 Forecast	\$ difference Forecast V. FY2013 Actual	FY2014 YTD Spend	% spent YTD
Operations												92%
Debt Service	123.8	123.5	112.3	112.3	112.3	112.3	112.3	112.3	112.3	(11.2)	112.3	100.0%
Personnel Costs	88.1	86.5	89.1	87.7	87.7	89.1	89.1	89.1	87.7	1.2	79.7	90.9%
Operations/Capital Outlay	53.2	56.9	57.2	60.6	60.6	69.6	71.1	71.9	73.3	16.4	57.9	79.0%
Transit Operations (DTC)	77.5	83.0	83.9	83.9	83.9	83.9	83.9	83.9	83.9	0.9	76.9	91.7%
Total Expenditures - Operations	342.6	349.9	342.5	344.5	344.5	354.9	356.4	357.2	357.2	7.3	326.8	91.5%
Capital (State)			CTP Spend									
Road System	144.7	134.6	108.2	108.2	108.2	100.8	92.6	92.6	92.6	(42.0)	81.4	87.9%
Grants & Allocations	15.8	20.9	21.8	21.8	21.8	20.8	19.8	19.8	19.8	(1.1)	15.0	75.8%
Support Systems	25.2	27.0	46.5	46.5	46.5	45.5	46.0	46.0	46.0	19.0	36.2	78.7%
Transit	5.8	5.5	15.2	15.2	15.2	13.3	11.3	9.9	9.9	4.4	5.8	58.6%
Total Expenditures- State Capital	191.5	188.0	191.7	191.7	191.7	180.4	169.7	168.3	168.3	(19.7)	138.4	82.2%
Capital (Federal)			CTP Spend									
Federal Capital	213.2	214.5	347.8	305.3	270.0	240.0	220.0	213.0	201.0	(12.0)	164.8	82.0%
Capital (GARVEE)			CTP Spend									
GARVEE - US301	35.7	26.9	28.2	28.2	28.2	21.0	7.0	7.0	7.0	(19.9)	6.5	92.9%
Total Expenditures - Capital	440.4	429.4	567.7	525.2	489.9	441.4	396.7	388.3	376.3	(53.1)	309.7	82.3%
TOTAL EXPENDITURES	783.0	779.3	910.2	867.7	834.4	796.3	753.1	745.5	733.5	(45.9)	636.5	86.8%

