

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

Buena Vista – December 19, 2011

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

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

Members in Attendance: 28

Members Absent: 5

Others Present: J. Craig, R. Geisenberger, D. Gregor, C. Heiks, M. Hopkins, C. Kempista, K. Knight, P. Jackson, B. Maxwell, S. McVay, O. Mosood, B. Motyl, A. Penny, B. Scogletti, C. Stewart, P. Wlaschin and members of the press.

Opening Business: Mr. Lewis called the meeting to order at 3:05 p.m.

Mr. Larson announced that his Deputy, Mr. Kubico, has retired and that Ms. Courtney Stewart has joined his staff.

Mr. Motyl announced that Ms. Erickson has accepted a new appointment and Ms. Amy Penny has joined his staff.

The minutes from the September meeting were approved as submitted.

Expenditure Subcommittee:

Mr. Ratledge presented the Expenditure Subcommittee's report.

Mr. Ratledge reviewed the Balance Sheet estimate. He noted that the Reversion estimate was increased from \$10.0 million to \$50.0 million and Continuing was increased from \$188.0 million to \$229.2 million. (See Table 1a for complete details).

Mr. Ratledge reviewed the Function Sheet estimate. He noted that the large increase in Medicaid from FY2011 is the combined result of less Federal assistance and an increased head count. (See Table 1b for complete details.)

A motion was made, seconded and approved to accept \$3,653.6 million as the expenditure estimate for FY2012. This represents a decrease of \$81.1 million from September's estimate.

Revenue Subcommittee:

Mr. Lewis presented the Revenue Subcommittee's report.

Economic Outlook

Mr. Craig reviewed the Global Insight December forecast. Since the September forecast, there has been some improvement in the FY2012 growth outlook for the U.S. economy. The real GDP growth rate has been increased from 1.3% to 1.7%. Monthly employment reports have been better than expected since September and the third quarter GDP was 2.0%, better than the 1.2% predicted in September. The outlook for FY2013 Real GDP growth has remained relatively unchanged at 1.9%. A continued concern about the risks in the Eurozone has kept the recession probability at a relatively high level, though it was reduced from 40% in September to 35%.

The outlook for Delaware Employment and Personal Income growth were relatively unchanged from September.

Mr. Dixon concurred that most of the economic news over the past several months has improved. However, he cautioned against the traditional extrapolation of trend forecasts going forward. He noted that digging out from such a severe financial crisis could take many more years. Debt to GDP ratios are continuing to rise and government has not begun the deleveraging process that will eventually have to occur.

Mr. Bhatt noted that some of the government spending has been for one-time items like TARP and the Recovery Act.

General Fund Revenues - Fiscal Year 2012:

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

FY 2012

Revenue Category	Sep-11	Dec-11	Change
Abandoned Property	353.6	383.6	30.0
Corporation Income Tax	165.0	145.0	(20.0)
Gross Receipts Tax	210.9	227.5	16.6
Other Refunds	(47.5)	(37.5)	10.0
Estate Tax	20.0	15.0	(5.0)
Insurance Taxes	75.3	71.2	(4.1)
Bank Franchise Tax	103.4	106.2	2.8
Cigarette Taxes	127.4	125.0	(2.4)
Public Utility Tax	49.0	47.0	(2.0)
Hospital Board and Treatment	65.8	66.8	1.0

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

Discussion of FY 2012 Estimates:

Corporate Income Tax: Mr. Lewis stated that the reduction was attributed to lower than expected payments.

Bank Franchise Tax: Mr. Lewis stated that the increase was attributed to a better than expected payments made on December 1st.

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

Abandoned Property: Mr. Lewis stated that \$20 million of the increase was attributed to expanding the scope of audit activities. The other \$10 million was attributed to the settlement of one case.

Insurance Tax: Mr. Gregor stated that the reduction was attributed to one large anticipated payment not being made.

Other Refunds: Mr. Lewis noted that the change in this category was attributed to the Bank Franchise Tax.

Other changes were attributed to tracking.

FY2012 Estimate Adopted:

A motion was made, seconded and approved to accept the Revenue Subcommittee's recommendation of \$3,406.4 million as the revenue estimate for FY2012.

The estimate represents an increase of \$26.9 million from DEFAC's September 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 September's estimates:

FY 2013

Revenue Category	Sep-11	Dec-11	Change
Corporation Income Tax	172.1	151.3	(20.8)
Abandoned Property	464.0	484.0	20.0
Gross Receipts Tax	210.7	227.3	16.6
Lottery	256.7	246.7	(10.0)
Other Revenues	86.5	89.8	3.3
Cigarette Taxes	126.1	123.8	(2.3)
Bank Franchise Tax	110.3	112.5	2.2
Public Utility Tax	49.6	47.6	(2.0)
Other Refunds	(36.3)	(38.3)	(2.0)
Hospital Board and Treatment	64.2	65.2	1.0
Personal Income Tax	1,285.4	1,285.9	0.5

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

Discussion of FY 2013 Estimates:

Personal Income Tax: Mr. Lewis stated that the slight increase was attributed to the announcements of new businesses coming into the State. Mr. Lewis also noted that considerable volatility continues to exist within this category and in Corporate Income Tax. This is particularly true with respect to Final settlements.

Lottery: Mr. Lewis stated that the \$10 million reduction was attributed to further study of the impact of Maryland competition.

Abandoned Property: Mr. Lewis stated that \$20 million of the FY2012 increase was carried into FY2013.

Other Revenues: Mr. Lewis noted that the increase in this category was due to an accounting adjustment.

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 an increase of \$6.5 million from the September estimate. Mr. Lewis noted that the adjusted growth rate is 2.0%

Mr. Lewis stated that the FY2014 estimate is \$3,626.4 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 September's estimate.

State Capital Expenditure: Mr. Motyl recommended that the estimate be lowered from \$251.1 million to \$210.0 million. Mr. Motyl attributed the decrease to a careful review of ongoing projects.

Federal Capital Expenditure: Mr. Motyl recommended that the estimate be lowered from \$235.7 million to \$205.7 million. Mr. Motyl attributed the decrease as being related to the decrease in State Capital Expenditures.

GARVEE – US301 Capital Expenditure: There was no change from September's estimate.

A motion was made, seconded, and approved to accept \$827.2 million as the FY2012 TTF expenditure estimate. The estimate represents a decrease of \$71.1 million from September's estimate. (See Table 4.)

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

FY2012 Estimates:

The following changes were made from the September estimate.

Motor Fuel Tax: Decreased from \$116.6 million to \$113.2 million. Mr. Motyl attributed the decrease to lower fuel consumption.

Other DMV Revenues: Decreased from \$25.1 million to \$24.0 million. Mr. Motyl attributed the decrease to tracking.

A motion was made, seconded, and approved to accept \$428.6 million as the FY2012 revenue estimate. The estimate represents a decrease of \$4.5 million from the September estimate.

FY2013 Estimates:

The following changes were made from the September estimate.

Motor Fuel Tax: Decreased from \$118.9 million to \$115.5 million. Mr. Motyl attributed the decrease to carrying forward the FY2012 reduction.

Other DMV Revenues: Decreased from \$25.9 million to \$24.7 million. Mr. Motyl attributed the decrease to carrying forward the FY2012 reduction.

A motion was made, seconded, and approved to accept \$437.6 million as the FY2013 revenue estimate. The estimate represents a decrease of \$4.6 million from the September estimate. (See Table 5)

Other Business:

FY2013 Debt Limit: Mr. Gregor presented the debt limit for FY2013. This amount is equal to 5% of projected FY2013 revenues or \$178.3 million.

Mr. Lewis announced the next scheduled DEFAC meeting dates:

- March 19, 2012
- April 16, 2012

June DEFAC meeting date: Mr. Lewis noted that there has been a request to change the meeting date for the June DEFAC meeting. He said that there were two options. The first option is meeting in the morning of June 14th. The second option is meeting in the afternoon of June 15th. After discussion, a motion was made, seconded and approved to hold the June DEFAC meeting on June 15th. The Expenditure Subcommittee meeting will begin at 11:00 p.m. and the Revenue Subcommittee and main meeting will be combined and begin at 12:00 p.m.

Mr. Gregor announced that the most recent editions of the Fiscal Notebook and the Tax Preference Report are available on the Department of Finance's website.

There being no further business, Mr. Lewis adjourned the meeting at 3:45 p.m.

Respectfully submitted,

James A. Craig

Table 1b.

DEFAC Expenditures Forecast for General Fund Disbursements FY2012 (\$ in millions)

December 2011 (as of 12/19/11)

	FY2005		FY2006		FY2007		FY2008		FY2009		FY2010		FY2011		Sep		Dec		FY2012 YTD (actual 11/30/11)	% spent FY2012 YTD FY2012 total	% forecast FY2012 total	% of FY2011 total	% of FY2010 total	
	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	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	73.1										538.7	35.1%	34.8%	36.7%	37.5%
Fringe Benefits	263.2	298.4	323.5	332.7	332.9	330.9	365.4	385.9	382.2	16.8										159.5	10.4%	10.5%	11.2%	10.8%
Health Care						218.9	253.0	270.6	257.8	4.8										108.4	7.1%	7.1%	7.7%	7.1%
Other						112.0	112.4	125.3	124.4	12.0										51.1	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	16.7										108.5	7.1%	6.5%	6.8%	6.4%
Debt Service	153.5	132.5	131.2	151.1	156.4	174.3	169.5	150.9	139.2	(30.3)										54.1	3.5%	3.8%	5.2%	5.7%
Grants	294.1	403.1	365.1	259.1	265.8	276.6	327.3	386.7	376.7	49.4										176.0	11.5%	10.3%	10.0%	9.0%
Medicaid	339.1	381.4	441.6	494.2	419.4	428.6	466.2	671.3	639.0	172.8										273.2	17.8%	17.5%	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%
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%
Contractual Services	228.9	252.2	289.5	296.7	286.8	435.7	434.5	506.5	506.6	72.1										182.9	11.9%	13.9%	13.3%	14.2%
Supplies & Materials	66.5	73.6	72.1	72.1	66.6	58.9	59.1	87.8	77.8	18.7										32.5	2.1%	2.1%	1.8%	1.9%
Capital Outlay	61.9	77.6	87.2	66.5	41.5	20.1	26.4	12.5	20.0	(6.4)										9.0	0.5%	0.5%	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	382.9										1,533.4	100.0%	100.0%	100.0%	100.0%

Comments:

DEFAC General Fund Revenue Worksheet

December-11 DEFAC Meeting	FY 2011			FY 2012					FY 2013				
	A Actual Collections	B DEFAC Sep-11	C % B over A	D DEFAC Dec-11	E % D over A	F \$ Increase D over B	G DEFAC Sep-11	H % G over B	I DEFAC Dec-11	J % I over D	K \$ Increase I over G		
Revenue Category													
Personal Income Tax	1,175.9	1,233.1	4.9%	1,233.1	4.9%	0.0	1,285.4	4.2%	1,285.9	4.3%	0.5		
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%	1,043.1	4.6%	0.0	1,085.9	4.1%	1,086.4	4.2%	0.5		
Franchise Tax	614.5	608.3	-1.0%	608.3	-1.0%	0.0	608.3	0.0%	608.3	0.0%	0.0		
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%	780.8	1.1%	0.0		
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%	769.8	1.1%	0.0		
Business Entity Fees	83.1	87.3	5.0%	87.3	5.0%	0.0	91.6	4.9%	91.6	4.9%	0.0		
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	165.0	-25.4%	145.0	-34.4%	(20.0)	172.1	4.3%	151.3	4.3%	(20.8)		
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	128.2	-23.8%	108.2	-35.7%	(20.0)	133.5	4.1%	112.7	4.2%	(20.8)		
Bank Franchise Tax	119.7	103.4	-13.6%	106.2	-11.3%	2.8	110.3	6.7%	112.5	5.9%	2.2		
Gross Receipts Tax	201.1	210.9	4.9%	227.5	13.1%	16.6	210.7	-0.1%	227.3	-0.1%	16.6		
Lottery	287.0	266.9	-7.0%	266.9	-7.0%	0.0	256.7	-3.8%	246.7	-7.6%	(10.0)		
Abandoned Property	427.9	353.6	-17.4%	383.6	-10.4%	30.0	464.0	31.2%	484.0	26.2%	20.0		
Hospital Board and Treatment	70.5	65.8	-6.7%	66.8	-5.3%	1.0	64.2	-2.4%	65.2	-2.4%	1.0		
Dividends and Interest	8.9	7.0	-21.1%	7.0	-21.1%	0.0	7.0	0.0%	7.0	0.0%	0.0		
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	20.0	23.7%	15.0	-7.2%	(5.0)	21.2	6.0%	21.2	41.3%	0.0		
Insurance Taxes	62.9	75.3	19.7%	71.2	13.2%	(4.1)	71.5	-5.0%	71.5	0.4%	0.0		
Public Utility Tax	57.2	49.0	-14.3%	47.0	-17.8%	(2.0)	49.6	1.2%	47.6	1.3%	(2.0)		
Cigarette Taxes	129.1	127.4	-1.3%	125.0	-3.2%	(2.4)	126.1	-1.0%	123.8	-1.0%	(2.3)		
Other Revenues	131.3	82.1	-37.5%	82.1	-37.5%	0.0	86.5	5.4%	89.8	9.4%	3.3		
Less: Other Refunds	(49.1)	(47.5)	-3.3%	(37.5)	-23.6%	10.0	(36.3)	-23.6%	(38.3)	2.1%	(2.0)		
Net Receipts	3,531.4	3,379.5	-4.3%	3,406.4	-3.5%	26.9	3,559.6	5.3%	3,566.1	4.7%	6.5		

FY 2013 Debt Limit: \$178.3

Table 2.

DEFAC General Fund Revenue Worksheet

Revenue Category	FY 2014					
	L DEFAC Sep-11	M % L over G	N DEFAC Dec-11	O % N over I	P \$ Increase N over L	
Personal Income Tax	1,328.1	3.3%	1,329.3	3.4%	1.2	
Less: Refunds	(209.5)	5.0%	(209.5)	5.0%	0.0	
PIT Less Refunds	1,118.6	3.0%	1,119.8	3.1%	1.2	
Franchise Tax	608.3	0.0%	608.3	0.0%	0.0	
Limited Partnerships & LLC's	181.2	5.0%	181.2	5.0%	0.0	
Subtotal Franchise + LP/LLC	789.5	1.1%	789.5	1.1%	0.0	
Less: Refunds	(11.0)	0.0%	(11.0)	0.0%	0.0	
Net Franchise + LP/LLC	778.5	1.1%	778.5	1.1%	0.0	
Business Entity Fees	96.2	5.0%	96.2	5.0%	0.0	
Uniform Commercial Code	17.9	2.9%	17.9	2.9%	0.0	
Corporation Income Tax	180.7	5.0%	158.8	5.0%	(21.9)	
Less: Refunds	(40.6)	5.2%	(40.6)	5.2%	0.0	
CIT Less Refunds	140.1	4.9%	118.2	4.9%	(21.9)	
Bank Franchise Tax	116.2	5.3%	118.4	5.2%	2.2	
Gross Receipts Tax	218.0	3.5%	235.3	3.5%	17.3	
Lottery	253.8	-1.1%	244.0	-1.1%	(9.8)	
Abandoned Property	464.0	0.0%	484.0	0.0%	20.0	
Hospital Board and Treatment	64.5	0.5%	65.9	1.1%	1.4	
Dividends and Interest	7.5	7.1%	7.5	7.1%	0.0	
Realty Transfer Tax	31.4	5.0%	31.4	5.0%	0.0	
Estate Tax	16.9	-20.3%	16.9	-20.3%	0.0	
Insurance Taxes	72.1	0.8%	72.1	0.8%	0.0	
Public Utility Tax	51.4	3.6%	49.3	3.6%	(2.1)	
Cigarette Taxes	124.9	-1.0%	122.5	-1.1%	(2.4)	
Other Revenues	84.5	-2.3%	86.8	-3.3%	2.3	
Less: Other Refunds	(36.3)	0.0%	(38.3)	0.0%	(2.0)	
Net Receipts	3,620.2	1.7%	3,626.4	1.7%	6.2	

Table 3.

Balance and Appropriations Worksheet

FY 2012 EXPENDITURES		FY 2012 BALANCES		FY 2013 APPROPRIATION LIMITS	
Total Spending Authority	\$3,968.8	Total Expenditures	\$3,653.6	FY 2013 Revenue Estimate	\$3,566.1
Less: Continuing Appropriations & Encumbrances from FY 2012	(\$265.2)	vs. FY 2012 Revenues	3,406.4	Unencumbered Cash Balance from FY 12	\$99.0
Less: Reversions	(\$50.0)	Operating Balance	(247.2)	100% Appropriation Limit	\$3,665.1
Total Expenditures	\$3,653.6	Prior Year Cash Balance	\$797.8	98% Appropriation Limit	\$3,591.8
		Cumulative Cash Balance	550.6	Prior 98% Appropriation Limit	\$3,519.9
		Less: Continuing Appropriations & Encumbrances from FY 2012	(265.2)	Increase (Decrease) from Prior Meeting	\$71.9
		Less: Budgetary Reserve Account	(\$186.4)	Sept. 2011 98% Appropriation Limit	\$3,519.9
		Unencumbered Cash Balance 6/30	\$99.0	Increase (Decrease) from September 2011	\$71.9

Table 4.

Delaware Department of Transportation										42%
FY 2012 Expenditures, Thru November 30, 2011										
	FY2010 Actual	FY2011 Actual	FY2012 Appropriation	SEPTEMBER FY2012 Forecast	DECEMBER FY2012 Forecast	\$ difference FY2011 Actual FY2012 Forecast	\$ difference FY2011 Actual FY2012 Spend	FY2012 YTD Spend	% spent YTD	
<u>Operations</u>										
Debt Service	121.5	123.8	134.6	126.7	126.7	0.0	2.9	97.9	77.3%	
Personnel Costs	83.4	84.5	85.1	85.1	85.1	0.0	0.6	35.9	42.2%	
Operations/Capital Outlay	59.6	55.3	56.7	56.7	56.7	0.0	1.4	23.3	41.1%	
Transit Operations (DTC)	90.0	90.4	95.2	95.2	95.2	0.0	4.8	39.8	41.8%	
Total Expenditures - Operations	354.5	354.0	371.6	363.7	363.7	0.0	9.7	196.9	54.1%	
<u>Capital (State)</u>			CTP Spend							
Road System	124.0	90.1	278.7	197.2	165.7	(31.5)	75.6	60.0	36.2%	
Grants & Allocations	13.5	13.5	40.1	18.1	14.5	(3.6)	1.0	6.4	44.1%	
Support Systems	24.0	18.9	32.1	25.5	20.8	(4.7)	1.9	4.7	22.6%	
Transit	8.8	5.0	14.8	10.3	9.0	(1.3)	4.0	0.8	8.9%	
Total Expenditures- State Capital	170.3	127.5	365.7	251.1	210.0	(41.1)	82.5	71.9	34.2%	
<u>Capital (Federal)</u>			CTP Spend							
Federal Capital	239.1	200.7	320.5	235.7	205.7	(30.0)	5.0	80.8	39.3%	
<u>Capital (GARVEE)</u>			CTP Spend							
GARVEE - US301	0.0	13.8	87.2	47.8	47.8	0.0	34.0	7.1	14.9%	
Total Expenditures - Capital	409.4	342.0	773.4	534.6	463.5	(71.1)	121.5	159.8	34.5%	
TOTAL EXPENDITURES	763.9	696.0	1,145.0	898.3	827.2	(71.1)	131.2	356.7	43.1%	

