

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

Hybrid Event – March 18, 2024

Attendance:

Member	Present
P. Anderson	No
N. Batta	No
C. Bo	No
S. Bravo	Yes
J. Bullock	No
L. Davis Burnham	Yes
R. Byrd	Yes
C. Cade	Yes
N. Cook	Yes
C. Davis	Yes
K. Dwyer	Yes
R. Geisenberger	Yes
D. Gillan	Yes
R. Glen	Yes
G. Hindes	No
M. Houghton	Yes

Member	Present
M. Jackson	Yes
P. Key	Yes
A. Lubin	Yes
N. Majeski	Yes
J. Manning	No
G. Marcozzi	Yes
I. McConnel	Yes
R.A. Miller	Yes
C. Morgan	No
B. Pettyjohn	Yes
E. Ratledge	Yes
T. Shopa	No
D. Short	No
D. Sokola	Yes
K. Williams	Yes

Members in Attendance: 22

Members Absent: 9

Others Present: K. Baranski, S. Bolden, C. Cassell-Carter, R. Chase, L. Clymer, S. Constantino, F. Cooke, J. Coverdale, T. Croce, B. DiVirgilio, C. Engelsiepen, N. Freedman, A. Godfrey, R. Goldsmith, S. Gonzalez, B. Greenlee, C. Hall, D. Haw-Young, J. Heller, A. Hodges, J. Johnstone, K. Knight, R. Larson, J. Maddox, K. Makanjuola, M. Marlin, V. McCartan, M. McConnell, L. Mitchell, S. Muller, E. Nestlerode, J. Noel, J. Nutter, J. Owens, T. Paradee, B. Price, D. Roose, B. Scoglietti, J. Seemans, A. Shields, B. Short, M. Smith, S. Sokolowski, C. Stewart, T. Strayer, B. Sullivan, K. Tabeling, A. Willey, C. Wright.

Opening Business: Mr. Houghton called the meeting to order at 1:30 p.m.

The minutes from the December meeting were approved as submitted.

Expenditure Forecasts:

Mr. Ratledge and Ms. Engelsiepen presented the General Fund Expenditure forecasts.

General Fund Expenditures - Fiscal Year 2024:

Mr. Ratledge first reviewed the balance sheet method. He noted the FY 2024 spending authority is \$8,201.7 million. Expected reversions and encumbered remain unchanged from the December estimate, standing at \$54.6 million and \$60 million, respectively for FY 2024.

Upon review of the functional method, Mr. Ratledge highlighted a significant increase in fringe benefits, noting an 18.0% rise from the previous year. This increase is primarily attributed to health care expenditures, which grew by 21.9% compared to the prior year, far surpassing the five-year annual average of 6.2%. While pension expenditures have decreased by \$98.4 million from last year, health care and contribution expenditures within this category have increased by \$52.1 million and \$69.9 million, respectively. Additionally, contractual services are up by 7.4%, standing at \$935.8 million but down from the December estimate of \$1,096.9 million. Capital outlay increased by 15.5% compared to the previous year, representing a notably lower growth rate than the average annual growth of 33.7% observed over the last five years. (See Table 1a and Table 1b for complete details.)

Ms. Williams inquired about the almost 15% decline in pension expenditures, particularly noting the 86% decrease in expenditures in the "Other" category. Ms. Engelsiepen explained that last year included a pensioner bonus of around \$70 million as well as a post-retirement increase (PRI) supplement of about \$150 million, both of which were not recurring for this year. Ms. Williams asked about the factors driving the rise in capital outlay. Ms. Engelsiepen responded that this increase is attributed to expenditures associated with the Kent and Sussex family courthouses.

A motion was made, seconded and approved to accept \$6,258.2 million as the Expenditure estimate for FY 2024. The estimate represents an increase of \$397.5 million from FY 2023 and a decrease of \$98.6 million from the December estimate.

General Fund Expenditures - Fiscal Year 2025:

Mr. Ratledge reviewed the FY 2025 expenditure estimates, which total \$7,059.9 million. He noted that Medicaid expenditures are estimated to increase by roughly \$100 million and fringe benefits are anticipated to increase by \$130 million.

A motion was made, seconded and approved to accept \$7,059.9 million as the Expenditure estimate for FY 2025. The estimate represents an increase of \$801.7 million from FY 2024 and an increase of \$652.0 million from the December estimate.

Revenue Forecasts:

Ms. Davis Burnham and Mr. Roose presented the General Fund Revenue forecasts.

Economic Outlook

Ms. Davis Burnham began by noting that although wage and salary growth is anticipated to improve this year, Delaware's employment figures are slightly below prior expectations. Ms. Davis Burnham mentioned the Governor's statement from the State of the State address, wherein he stated that there are 21,000 people seeking employment in Delaware and there are 31,000 job openings available. She then asked Mr. Roose if these figures have been studied. Mr. Roose replied that the Department of Labor is currently examining these figures. He pointed out that the majority of the 31,000 job openings are typically for higher income positions and highlighted a mismatch between the skill levels of individuals seeking employment and the qualifications required for the available jobs. A subsequent discussion between Mr. Cade, Mr. Byrd, and Mr. Geisenberger took place.

Turning to the economic outlook presentation, Mr. Roose noted that the S&P forecast was notably better than the December forecast, and GDP in the fourth quarter of CY 2023 grew stronger than predicted. S&P continues to predict a general slowing of the economy over the calendar year to 1.3% growth in the fourth quarter. This low growth trend is reflective of the Federal Reserve's 2% inflation growth target, which will require low trend growth for some time.

Mr. Roose then discussed the potential impact of the Tax Relief for American Families and Workers Act on Delaware should it be passed. The bill proposes to temporarily reinstate full expensing for domestic R&D, reversing the policy of spreading deductions for R&D investments over five years since 2022. This change would apply retroactively for the 2022 and 2023 tax years and remain in effect until the end of 2025, allowing companies to deduct R&D expenses in the year they occur. Additionally, this bill would retroactively extend 100% bonus depreciation. Mr. Roose explained that these changes would flow through the Delaware tax calculation resulting in an estimated revenue loss of \$135.5 million for FY 2024 and \$74.6 million for FY 2025. Ms. Williams, Mr. Ratledge, Ms. Davis, and Mr. Geisenberger discussed the ramifications of the proposed federal bill, the challenges federal changes present to balancing the State budget, and the pros and cons of rolling conformity versus decoupling.

General Fund Revenues:

Mr. Roose noted that with the economy doing noticeably better, several revenues have accelerated since the December meeting.

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

FY 2024				FY 2025			
Revenue Category	Dec-23	Mar-24	Change	Revenue Category	Dec-23	Mar-24	Change
Corporation Income Tax	400.0	434.0	34.0	CIT Refunds	(75.0)	(109.3)	(34.3)
Personal Income Tax	2,400.4	2,435.7	35.3	Personal Income Tax	2,487.6	2,529.9	42.3
Realty Transfer Tax	205.0	194.0	(11.0)	Gross Receipts Tax	368.0	381.4	13.4
Unclaimed Property Refunds	(160.0)	(145.0)	15.0	Realty Transfer Tax	223.2	211.3	(11.9)
Gross Receipts Tax	358.7	367.4	8.7	Unclaimed Property Refunds	(160.0)	(150.0)	10.0
Dividends and Interest	127.1	123.0	(4.1)	Bank Franchise Tax	109.9	105.6	(4.3)
Bank Franchise Tax	101.0	97.2	(3.8)	Dividends and Interest	150.6	151.4	0.8
Lottery	243.0	240.0	(3.0)	Lottery	247.8	247.2	(0.6)
Other Refunds	(15.7)	(15.2)	0.5	Hospital Board and Treatment	21.9	21.3	(0.6)
Hospital Board and Treatment	22.1	22.0	(0.1)				

For a complete listing of FY 2024 estimates, see Table 2.

Mr. Roose recommended a \$35.3 million increase to Personal Income Tax, citing that Withholding was up 5.1% YTD in December and has risen to 7.0% YTD. He mentioned that this increase is partially attributed to strong bonus growth from the finance industry. However, he added that the current outlook anticipates a deceleration this year with somewhat stronger growth projected for the following year.

Mr. Roose recommended increasing the Gross Receipts Tax estimate by \$8.7 for FY 2024, noting that price of oil at refineries is expected to rise throughout the year. He also recommended increasing the FY 2025 and FY 2025 estimate by \$13.4 million and \$13.8, respectively.

When discussing Lottery collections, Mr. Roose noted that iGaming and sports experienced a surge following the launch of the new mobile app. However, Mr. Roose stated that both traditional and video lottery revenues have remained relatively flat, prompting him to recommend a \$3.0 million decrease for FY 2024.

Mr. Roose mentioned a \$34.0 million increase in Net Corporate Income Tax collections for this year, followed by a \$34.3 and \$4.8 million decrease in FY 2025 and FY 2026, respectively. The decline in FY 2025 is largely due to an increase in refunds from several large expected claims.

Ms. Davis recommended a \$4.1 million decrease to the FY 2024 Dividends and Interests estimate.

Fiscal Year 2024 Estimate Adopted:

A motion was made, seconded and approved to accept \$6,248.8 million as the revenue estimate for FY 2024. The estimate represents an increase of \$71.5 million from the December estimate.

Fiscal Year 2025 Estimate Adopted:

A motion was made, seconded and approved to accept \$6,307.1 million as the revenue estimate for FY 2025. The estimate represents an increase of \$14.8 million from the December estimate.

Transportation Trust Fund (TTF):

TTF -- Expenditures: Ms. Haw-Young presented the Transportation Trust Fund's expenditure forecast. She recommended an increase of \$23.3 million to FY 2024 expenditure estimate. Of the changes, there was an increase in capital outlay and road systems as well as a decrease in the transit estimate.

A motion was made, seconded, and approved to accept \$1,058.7 million as the FY 2024 TTF expenditure estimate (see Table 4).

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

Fiscal Year 2024 Estimates:

The following changes were made from the December estimates.

Toll Road Revenues: There was a \$700,000 increase to \$212.5 million.

Motor Fuel Tax Administration: There was no change to the estimate of \$136.2 million.

Division of Motor Vehicles: There was a \$700,000 increase to \$251.6 million.

Other Transportation Revenues: There was a \$9.0 million increase to \$27.2 million.

U.S. 301 Revenues: There was no change to the estimate of \$25.2 million.

A motion was made, seconded, and approved to accept \$652.7 million as the FY 2024 TTF revenue estimate. The estimate represents an increase of \$10.4 million from the December estimate.

Fiscal Year 2025 Estimates:

There was no change to the December estimate of \$649.5.

A motion was made, seconded, and approved to accept \$649.5 million as the FY 2025 TTF revenue estimate (See Table 5).

Balance and Appropriations Worksheet:

Mr. Roose presented the Balance and Appropriations worksheet. The result of this exercise is attached as Table 3.

Other Business:

Mr. Houghton announced the next (tentative) scheduled DEFAC meeting dates:

- Monday, May 20, 2024
- Monday, June 17, 2024

Public Comment:

Mr. Houghton said that no member of the public has signed up for comment.

There being no further business, Mr. Houghton adjourned the meeting at 2:42 p.m.

Respectfully submitted,

Liz Mitchell