

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

WebEx Event – May 21, 2020

Attendance:

Member	Present
N. Batta	Yes
C. Bo	Yes
C. Bonini	Yes
J. Bullock	Yes
L. Davis Burnham	Yes
R. Byrd	Yes
J. Cohan	Yes
N. Cook	Yes
C. Davis	Yes
K. Dwyer	Yes
B. Fasy	Yes
R. Geisenberger	Yes
R. Glen	Yes
G. Hindes	Yes
J. Horthy	Yes

Member	Present
M. Houghton	Yes
M. Jackson	Yes
Q. Johnson	Yes
K. Lewis	Yes
A. Lubin	Yes
G. Marcozzi	Yes
I. McConnel	Yes
C. Morgan	Yes
M. Morton	Yes
E. Ratledge	Yes
T. Shopa	Yes
D. Short	Yes
D. Sokola	Yes
D. Swayze	Yes
K. Walker	Yes

**Members in Attendance: 30
Members Absent: 0**

Others Present: Rep. P. Baumbach, Secretary C. Cade, Sen. B. Pettyjohn, J. Aidala, A. Aka, P. Allen, S. Bravo, T. Croce, D. Dauerty, L. Davis, J. DeChener, B. DiVirgilio, V. Dorsey, T. Dougherty, C. Engelsiepen, T. Fanuka, S. Finnigan, N. Freedman, J. Gallagher, K. Gomes, S. Goss, K. Grant, J. Greenage, S. Grossman, D. Hastie, M. Hopkins, J. Hudson, A. Jenkins, R. Jones, J. Johnson, K. Johnson, J. Johnstone, C. Kelly, K. Knight, R. Larson, C. Longfellow, J. Marinucci, M. Marlin, P. McGuigan, S. McNeeley, B. Motyl, S. Mullin, E. Nestlerode, J. Nutter, J. Offredo, C. Olsen, E. Park, A. Puzzo, P. Redmond, D. Roose, K. Scollon, A. Scavette, B. Scoglietti, D. Scott, B. Short, J. Smith, S. Snyder, M. Stant, S. Steward, M. Sturtevant, L. Swain, F. Thomas, K. Thorpe, T. Van Horn, V. Watson, L. Weaver, L. Willis, L. Zubaca and members of the press.

Opening Business: Mr. Houghton called the meeting to order at 1:33 p.m.

The minutes from the April meeting were approved as submitted.

Expenditure Forecasts:

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

General Fund Expenditures - Fiscal Year 2020:

Mr. Ratledge began the Balance Sheet method by noting the FY 2020 spending authority of \$5,082.8 million. He mentioned that, like in previous recessions, significant changes have been made to the Continuing, Reversions and Encumbered estimates. Indeed, the Reversions estimate has increased from \$40.5 million in April to \$137.6 million in May; the Encumbered estimate rose by \$12.4 million, to \$52.4 million; and the Continuing estimate has been reduced from \$362.1 million last month to \$341.3 million.

Ms. Engelsiepen said the Office of Management and Budget (OMB) has worked closely with various agencies in reviewing projected expenditures, necessary encumbrances and the need for continuing funds. She added that most of the \$97.1 million increase in the Reversions estimate can be traced to Personnel and Medicaid costs, which contributed \$9.6 million and \$40.0 million to the increase, respectively. The remaining increase in Reversions was attributed to funding that has been continued in preparation for an economic downturn.

Ms. Engelsiepen explained the change in the Encumbered estimate by delays in the payment of Contractual Services invoices. She attributed the \$20.8 million reduction in the Continuing estimate to effort between OMB and various agencies to adjust operational and project related expenditures. Ms. Engelsiepen mentioned she expected minor changes to the estimates in June.

Mr. Ratledge reviewed the Functional method. Ms. Engelsiepen indicated that Personnel cost has declined by \$9.6 million from April due to local funding for schools. She attributed the increase in the expenditure category from the FY 2019 value to salary policy, the Opportunity Funding initiative and filled vacancies.

After noting that the Debt Service estimate is unchanged from the April estimate, Ms. Engelsiepen indicated a \$60.1 million monthly decrease in the Medicaid estimate. She explained the latter by an increase in the Federal share of Medicaid spending, which has been made retroactive back to January and extended through June as a result of the COVID-19 pandemic.

Ms. Engelsiepen said the number of Medicaid eligibles rose to 238,418 at the end of April from 235,983 a year earlier. Meanwhile, the newly eligible figure rose to 10,870 last month from 10,807 twelve months earlier.

Ms. Engelsiepen said the Grants and Contractual Services estimates have decreased a

combined \$15.8 million, of which \$12.4 million was moved to Encumbered. Ms. Engelsiepen said the decline in the estimates for Supplies and Materials and Capital Outlay is based on trends.

In response to a question from Mr. Ratledge, Mr. Jackson said the slowdown in activity and telecommuting of State employees have created a large amount of encumbrances against the Contractual Services line item. He added the Grants estimate is also based on trend seen through April. Mr. Jackson mentioned that a main challenge throughout the course of the year has been finding some predictability in the spending of funds appropriated for capital projects. He said the current Contractual Services estimate is close to actual spending but could see a minor adjustment in June.

Ms. Davis asked whether one should expect further increases in the number of Medicaid eligibles. Mr. Jackson answered affirmatively. He pointed out that, through the increase in the Reversions estimate, the State has positioned itself for the increase in eligibles in July and August. After noting that the Federal funding is expected to continue through July, Ms. Davis asked if there is a risk of a clawback. Mr. Jackson answered he was not aware of a clawback when it comes to Medicaid.

Mr. Ratledge noted that some individuals might become eligible for Medicaid after the weekly Federal assistance of \$600 ends in July. Mr. Jackson agreed. In response to a question from Mr. Bonini about Medicaid utilization, Mr. Jackson said costs will certainly increase in the future although claims from Managed Care Organizations and the State's group health insurance plan were down in April. (See Table 1a and Table 1b for complete details).

A motion was made, seconded and approved to accept \$4,551.5 million as the Expenditure estimate for FY 2020. The estimate represents an increase of \$157.2 million from FY 2019 and a decrease of \$88.7 million from the April estimate.

General Fund Expenditures - Fiscal Year 2021:

Mr. Houghton noted there are no General Fund Expenditure estimates for FY 2021.

Revenue Forecasts:

Mr. Lewis, Mr. Roose, Ms. Davis, Ms. Mullin and Mr. Knight presented the General Fund Revenue forecasts.

Economic Outlook

Mr. Aka presented economic forecasts for the U.S. (produced by IHS Markit (“IHS”)) and Delaware (developed by the Department of Finance). He said the COVID-19 pandemic has increased uncertainty with respect to economic and revenue forecasts. Although some economic data such as the April U.S. employment and first-quarter U.S. GDP are now known, the estimated payments and underlying activity, the depth and length of downturn and, critically, the shape of recovery remain unknown.

Mr. Aka said the recession is unique in that it has affected both the supply and demand sides of the economy. Stay at home orders and the social distancing mandate have impacted demand adversely, while supply chain disruptions and business closures have affected supply. Another unique feature of this recession is that it is hard to imagine a sustained economic recovery until everyone feels confident that their risks of contracting COVID-19 have fallen. Finally, there were no obvious bubbles prior to the recession.

Mr. Aka presented a snapshot of the April employment report for the nation and said payrolls dropped by a historic 20.5 million workers as the pandemic hit the economy. The second biggest drop in history, which pales by comparison, was 2.0 million jobs lost in September 1945, at the end of the second World War.

When compared with last month IHS now expects a bigger contraction this calendar year and generally-speaking a larger rebound next year. Real GDP is expected to plummet by 7.3% this year before rebounding 5.1% next year. Meanwhile the nation’s employment is expected to contract by 13.5% this year. Mr. Aka said Delaware’s economic forecast is tracking the U.S. pattern. Employment growth rates in the State are expected at -13.3% and 4.6% for CY 2020 and CY 2021, respectively; meanwhile wages and salaries growth rates are projected at -11.2% and 10.1% for these 2 years.

Mr. D. Scott, the Director of the Division of Unemployment Insurance for Delaware Department of Labor (DOL), mentioned that the 95,824 claims received by DOL between March 15 and May 16 represent the volume seen in the prior 35 months. The weekly claims of 5,584 in the week ending May 16 represent a slight uptick from the prior week, as it includes about 1,000 claims that may be eligible for the Pandemic Unemployment Assistance (PUA), a new filing system for the self-employed and independent contractors.

Mr. Scott said the weekly benefit amounted to approximately \$46.8 million for the week ending May 16. He added that benefits totaled \$59.0 million for the whole of 2019. Mr. Scott noted that of the \$234.8 million paid since March 15, about 60.0% or \$142.3 million were paid by the Federal government and \$91.9 million from the Delaware Unemployment Insurance Trust Fund. He anticipated the latter, worth about \$100.0 million, to be depleted by late June and that DOL would begin borrowing hundreds of millions from the Federal government in the last half of the year and additional funds next year.

Responding to Mr. Houghton, Mr. Scott confirmed that benefits paid in all of 2019 were \$59.0 million and that over \$90.0 million have been paid by the State’s trust fund in the last 2 months alone. Mr. Houghton asked about the borrowing mechanism. Mr. Scott answered

that the State has put provisions in place as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, allowing it to borrow from the Federal government at 0.0% interest until the end of the year and positive interest rates going forward. He added that the Department of Labor and the Department of Finance were in discussion to best address the need for borrowing in the future.

Mr. Jackson said the OMB has received guidance from the U.S. Treasury that a portion of the Coronavirus Relief Fund (CRF) received by the State can be used to help pay for State funded unemployment insurance claims. For Mr. Geisenberger not using the CRF funds could bring the depletion of the trust fund and have tax implications for the State's employers.

Mr. Bonini asked how much is the CRF funding and whether one should expect more funding in the future? Mr. Jackson replied that the allocation of Federal funding totaled \$1.25 billion. Based on a distribution formula reliant on population size, New Castle county received a direct allocation of \$323.0 million and the State received \$927.0 million. Mr. Jackson noted CRF funds must be spent by the end of the calendar year on eligible coronavirus-related items.

Mr. Marcozzi asked whether the State would spend more than its allocation. Mr. Jackson answered that up to half of the allocated funds can be used for the State portion of the unemployment insurance trust fund if the current spending rate continues. He stressed that the CRF funds cannot be used for revenue loss mitigation.

Mr. Houghton asked whether the State can receive some of the New Castle CRF allocation. Mr. Jackson answered that the State is working with the county on a partnership to share expenditures for programs that are directly benefiting New Castle. As an example, he said he hoped the county would help pay some of the costs associated with the State's trust fund, given the benefits that it would have for businesses. Mr. Geisenberger added that a lot of CRF funds will be used on the unemployment insurance side to avoid having a significant loan that could result in a large tax increase on all Delaware businesses.

Resuming his presentation Mr. Scott said the State received over 10,700 claims during the first week the State of Emergency was called. This was higher than the previous monthly peak of 9,632. Weeks of March 21, 28, April 4 and 11 saw claims above the prior peak. Mr. Scott also said the continued claims has peaked above 60,000 for the first time in the State's history. This is significantly above the prior peaks of 18,705 during the 2008-09 recession and 14,606 during the 2001 recession. Mr. Scott said he expected the continued claims number to continue to climb slightly, and showed a slide displaying a breakout of continued claims across industries.

Mr. Roose said the Finance and Insurance industry has seen minor disruption so far, which bodes well for the short and long term Withholding forecasts. He said revenue forecasts have been brought up despite the worsening economic forecasts, an increase

justified by the complete lack of economic and revenue data last month and the fact that reductions to estimates of some key revenue sources in April were too large.

Mr. Roose said there were limited downside risks in fiscal year 2020 to revenue categories other than the income tax final payments, which will reflect a shift from FY 2020 to FY 2021. The large risks and uncertainties at the moment lie in FY 2021 and are fundamentally related to the shape of the recovery. The latter will depend on several factors, including the path of virus infection and public health situation, whether or not employees would want to resume working based on social distancing, whether or not they are making more income through the unemployment benefits and whether employers will reopen their workplaces.

Mr. Roose described the assumptions used for the May forecasts, which were broadly similar to the ones used last month. These include a gradual relaxation of the shutdown from June 1st, a swoosh-shaped recovery and a large number of taxpayers taking advantage of delayed due dates.

After showing a slide displaying a dramatic deceleration in key revenues such as Withholding, Gross Receipts, Estimated and Final personal income tax, Tentative and Final corporate income tax and Lottery during the April 1 - May 20 period, Mr. Roose described the fact that job losses are not proportionally distributed across industries, as losses were concentrated in lower-paid industries. He said that total continued claims represented approximately 10.0% of the jobs in the State through mid-April. The share of continued claims in the Accommodations and Food sector—which account for 11.9% of Delaware's employment and pays an average weekly wage of \$413.0—was 26.0%. On the other hand, the share of continued claims in the higher-paid Finance and Insurance sector was only 1.4%. Mr. Roose concluded from the distribution of claims across industries that Withholding is not expected to see declines as significant as the declines in employment in the short term.

General Fund Revenues - Fiscal Year 2020:

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

Revenue Category	Apr-20	May-20	Change
Personal Income Tax	1,581.2	1,639.5	58.3
Gross Receipts Tax	234.9	251.1	16.2
Corporation Income Tax	129.7	143.0	13.3
CIT Refunds	(58.0)	(46.0)	12.0
Insurance Taxes	81.5	70.1	(11.4)
Limited Partnerships & LLC's	326.8	316.8	(10.0)
PIT Refunds	(208.6)	(198.8)	9.8
Unclaimed Property Refunds	(100.0)	(106.0)	(6.0)
Lottery	157.8	163.1	5.3
Other Revenues	61.9	66.1	4.2
Hospital Board and Treatment	28.7	26.7	(2.0)
Other Refunds	(21.7)	(20.4)	1.3
Dividends and Interest	53.7	54.7	1.0

For a complete listing of FY 2020 estimates, see Table 2.

Discussion of FY 2020 Estimates:

Personal Income Tax (PIT) Less Refunds: Mr. Roose recommended an increase in the estimate of \$68.1 million.

Mr. Roose said that in April, withholding was expected to decline 20.0% for the last three months of the fiscal year, largely in line with expectations about short-term job losses. However, the revenue category did not fare as poorly as expected during that month. Based on April results, withholding would have to decline nearly 40.0% for May and June to meet the April withholding forecast, which seems unlikely. Mr. Roose said the FY 2020 withholding forecast now requires a 15.0% decline in the remainder of the fiscal year. The FY 2021 forecast is showing a deeper decline, when compared with last month's forecast, to be in line with the revised wage and salary forecast.

Mr. Roose said the estimated payment forecast has been revised up by \$17.4 million for FY 2020, as April receipts were down 60.0% when essentially zero dollars were due that month due to the payment delays.

Mr. Roose said reconciliation for refunds and final payments, which was based on growth for 10 business days mid-month, has shifted \$8.5 million of final payment from this year to the next and \$9.8 million in refunds from FY 2020 to FY 2021. He noted a positive, 2.4% adjusted growth rate for net PIT on the back of strong withholding collections during the first 9 months of this fiscal year. Meanwhile, the negative adjusted growth of -9.5% in FY 2021 reflects weaker growth in withholding and assumptions made regarding estimated and final payments.

Net Corporate Franchise Tax & LP/LLC: Mr. Knight recommended a reduction in the estimate by \$10.0 million.

Mr. Knight said the June 1st 40% estimated payment for Franchise Tax is fast approaching. He stressed that at the moment, it is hard to tell whether taxpayers are holding off payment until the last minute or if they will be delinquent with payment. Mr. Knight said more information will be available at the June meeting. He indicated that the \$10.0 million decrease in the Limited Partnerships and Limited Liability Corporations category can be traced to a tracking change.

Mr. Knight noted that next year's estimates for Department of State-related revenue categories are unchanged after considering various methodologies.

Mr. McConnel asked whether tax filing deadlines have been delayed. Mr. Geisenberger replied that the movement of the filing dates for the personal and corporate income taxes were a function of Delaware's law and the right thing to do. He noted the same was done in neighboring states and that no other dates have been moved since they are Delaware filing dates and not tied to Federal due dates.

Gross Receipts Tax: Mr. Roose recommended an increase in the estimate by \$16.2 million.

Mr. Roose noted that maintaining last month's estimate would require May and June collections to decline by 70.0%, which seems unlikely. The recommended forecast of \$251.1 million requires a smaller, 30.0% decline for these two months. Mr. Roose said excluding audits and late payments, collections from taxpayers who made payments in both April 2019 and 2020 have declined by 16.0%. He concluded that the base for Gross Receipts could be down 16.0% this month and justified the 30.0% projected decline in May and June by the reduced base and increased special fund transfers this fiscal year.

Corporate Income Tax (CIT) Less Refunds: Mr. Roose recommended an increase in the estimate by \$25.3 million.

Mr. Roose mentioned two factors explaining the rise in the estimate: first, maintaining the April estimate will require a 93.0% decline in May and June, which seems unlikely. Payments were made by some taxpayers at a time when essentially no payment was required for most payers. Moreover, the economic forecast is now calling for a smaller swing in profits this year and next, moderating declines.

Unclaimed Property Less Refunds: Mr. Roose recommended a reduction in the estimate by \$6.0 million.

Mr. Roose attributed the reduction to a higher level of claims.

Lottery: Mr. Roose recommended an increase in the estimate by \$5.3 million.

Mr. Roose said traditional lottery, which was hit hard in the last 2 weeks of March, has grown rapidly over the past 4 weeks driven by instant ticket sales.

Insurance Taxes and Fees: Ms. Mullin recommended a decrease in the estimate by \$11.4 million.

Ms. Mullin explained the decrease is mostly due to a reporting error. In response to a question from Mr. Houghton, Ms. Mullin said \$5.0 million of the \$11.4 million decrease was due to lower than anticipated collected funds in April and \$6.0 million was due to a reporting error as a result of a transfer that was done incorrectly in October 2019. Mr. S. Snyder, Chief of Staff for the Office of the Insurance Commissioner, added the estimate presented at the April meeting was an outlier.

Alcoholic Beverage Tax: Mr. Roose did not recommend a change in the estimate.

Mr. Roose said strength in tracking was offset by deferred payments related to a tax credit.

Dividends and Interest: Ms. Davis recommended an increase in the estimate by \$1.0 million.

Ms. Davis attributed the slight increase in the estimate this year and larger increase next year to the rebalancing of the portfolio, leading to realized gains that had accumulated over several months.

Other Revenues: Mr. Roose recommended an increase in the estimate by \$4.2 million.

Mr. Roose said the increase is driven by sweeps (\$5.2 million) of special funds into the General Fund by the Office of Management and Budget.

Other changes were attributed to tracking.

FY 2020 Estimate Adopted:

A motion was made, seconded and approved to accept \$4,415.5 million as the

revenue estimate for FY 2020. The estimate represents an increase of \$92.0 million from the April estimate.

General Fund Revenues - Fiscal Year 2021:

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

Revenue Category	Apr-20	May-20	Change
Personal Income Tax	1,719.3	1,792.5	73.2
Unclaimed Property	525.0	554.0	29.0
Lottery	185.3	171.9	(13.4)
Insurance Taxes	100.3	88.4	(11.9)
Gross Receipts Tax	247.0	236.1	(10.9)
PIT Refunds	(239.4)	(249.2)	(9.8)
Corporation Income Tax	157.8	166.8	9.0
Dividends and Interest	27.0	35.0	8.0
Alcoholic Beverage Tax	25.4	27.5	2.1
Hospital Board and Treatment	30.5	28.5	(2.0)

For a complete listing of FY 2021 estimates, see Table 2.

Discussion of FY 2021 Estimates:

Gross Receipts Tax: Mr. Roose recommended a reduction in the estimate by \$10.9 million.

Mr. Roose noted that 15.0% of the Gross Receipts tax is related to petroleum. He said the recommended forecast assumes that petroleum receipts will drop 40.0% in FY 2021 while non-petroleum receipts will get back to close to normal over the course of the year.

Corporate Income Tax (CIT) Less Refunds: Mr. Roose recommended an increase in the estimate by \$9.0 million.

Mr. Roose mentioned that large audit receipts are expected in FY 2021. He also said \$6.0 million of the current year's refunds is expected to shift into FY 2021 because of the inability by the Division of Revenue to conduct audits as a result of the coronavirus pandemic.

Unclaimed Property Less Refunds: Mr. Roose recommended an increase in the estimate by \$29.0 million.

Mr. Roose noted the revenue category will hit the cap of \$554.0 million next year.

Lottery: Mr. Roose recommended a decrease in the estimate by \$13.4 million.

Mr. Roose suggested the response to social distancing mandate will result in FY 2021 reduction for casinos receipts.

Dividends and Interest: Ms. Davis recommended an increase in the estimate by \$8.0 million.

Ms. Davis attributed the increase to the rebalancing of the State's portfolio.

Other changes reflected the carrying forward of changes made in FY 2020.

FY 2021 Estimate Adopted:

A motion was made, seconded and approved to accept \$4,524.2 million as the revenue estimate for FY 2021. The estimate represents an increase of \$73.3 million from the April estimate.

Mr. Geisenberger said staff at the Department of Finance (DOF) have added back about 21.0% of the revenue they thought would be lost in April. After Mr. Bonini noted the projections were based on a small data period, Mr. Roose said that data lags also added to the uncertainty.

Mr. Short mentioned that the Balance and Appropriations worksheet displayed in the Press package was different from the one presented by Mr. Roose. Mr. Roose apologized and acknowledged an error that was caught a few minutes before the presentation. Mr. Geisenberger also apologized after thanking Mr. Short for pointing out the discrepancy.

Balance and Appropriations Worksheet: Mr. Roose 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: Increased from \$352.2 million in April to \$353.1 million.

Mr. Motyl said Personnel costs have been raised by \$6.3 million to reflect reclassification of some positions and other adjustments. He also mentioned a \$5.4 million reduction for the Capital Outlay category on the back of less than anticipated storm expenditures.

State Capital Expenditure: There was no change from the April estimate of \$371.4 million.

Federal Capital Expenditure: There was no change from the April estimate of \$280.0 million.

U.S. 301 Capital Expenditure: There was no change from the April estimate of \$35.7 million.

Mr. Lubin asked whether resuming cash collection on toll booths is impacted by Personnel costs or built into the forecast. Mr. Motyl answered said collections are already built in the operating budget.

Mr. Bonini said the Delaware Department of Transportation (DeIDOT) is appropriately using the slowdown in traffic to push through projects and asked when this will be reflected in the forecast. Mr. Motyl answered that spending is on track this year, as accelerated projects are making up for the ones that are regressing.

A motion was made, seconded, and approved to accept \$1,040.2 million as the FY 2020 TTF expenditure estimate. The estimate represents an increase of \$0.9 million from the April estimate (See Table 4.)

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

FY 2020 Estimates:

The following changes were made from the April estimates.

Toll Road Revenues: There was no change from the April estimate of \$174.5 million.

Motor Fuel Tax Administration: There was no change from the April estimate of \$136.0 million.

Division of Motor Vehicles: There was no change from the April estimate of \$203.9 million.

Other Transportation Revenues: There was no change from the April estimate of \$16.9 million.

U.S. 301 Revenues: There was no change from the April estimate of \$19.8 million.

Mr. Bonini asked whether a new month of data did not change prior assumptions used in the forecast. Mr. Motyl replied the assumptions remain the same as last month and are working out well so far.

A motion was made, seconded, and approved to accept \$551.1 million as the FY 2020 TTF revenue estimate. The estimate is unchanged from the April estimate.

FY 2021 Estimates:

The following changes were made from the April estimates.

Toll Road Revenues: There was no change from the April estimate of \$196.7 million.

Motor Fuel Tax Administration: There was no change from the April estimate of \$147.7 million.

Division of Motor Vehicles: There was no change from the April estimate of \$215.4 million.

Other Transportation Revenues: There was no change from the April estimate of \$17.0 million.

U.S. 301 Revenues: There was no change from the April estimate of \$21.0 million.

A motion was made, seconded, and approved to accept \$597.8 million as the FY 2021 TTF revenue estimate. The estimate is the same as the April estimate (See Table 5.)

Other Business:

FY 2021 Budget Benchmark: Mr. Geisenberger said the budget benchmark index is calculated at the May and December meetings. He pointed out that the May index is not very different from December's, which is consistent with the idea of using a benchmark for stability in budgetary planning.

Mr. Roose reminded DEFAC members that under Executive Order Number 21, the calculation of the benchmark is based on personal income growth, population growth, and an inflation measure for state and local government purchases. In December 2019 the benchmark index stood at 4.1% while it stands at 4.0% in May 2020.

Based on the index and the 98% appropriation limit, Mr. Roose said the FY 2021 benchmark appropriation is \$4,731.8 million and the FY 2021 extraordinary shortfall is \$259.8 million. Mr. Roose also said there is no budget stabilization fund increment given FY 2020 unencumbered forecast of \$39.1 million and a 2% set aside of \$99.7 million. As a result, the State's budget stabilization fund remains at \$126.3 million.

Mr. Jackson noted that the budget stabilization fund will likely be a part of the solution to fill the FY 2021 budget deficit.

A motion was made, seconded, and approved to accept the budget benchmark index of 4.0% and the FY 2021 benchmark appropriation is \$4,731.8 million.

Health Care Spending Benchmark: Ms. Walker congratulated all individuals in the health care industry for an excellent response to the pandemic. She mentioned she was impressed by the work done in response to the coronavirus. Ms. Walker said the collection of indicators needed for the health care benchmark has been delayed until Fall. Mr. Houghton thanked Ms. Walker and staff of the Health Care Commission for their efforts.

Mr. Johnson thanked everyone involved in the FY 2021 projections. He said the Joint Finance Committee (JFC) may need to prepare for possible downward revisions in the forecasts in June. Mr. Johnson said he expects the JFC will take a conservative approach when crafting the FY 2021 budget.

Mr. Swayze asked about the timing of work of the JFC and General Assembly. Mr. Johnson replied the markup will begin on June 2nd.

Mr. Houghton announced the next scheduled DEFAC meeting date:

- June 17, 2020

Mr. Geisenberger said the June meeting will probably be conducted via WebEx.

There being no further business, Mr. Houghton adjourned the meeting at 3:30 p.m.

Respectfully submitted,

Arsene Aka

Table 1b.

DEFAC Expenditures Forecast for General Fund Disbursements FY2020 (\$ in millions)																				
May 21, 2020																				
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2020	Difference	% change	Annual Avg.	FY2020 YTD	% spent	% of	% of	% of	% of	% of			
	Actual	Actual	Actual	Actual	Actual	April	May	20 vs. '19	'20 vs. '19	2020 vs. '15	(actual 04/30/20)	(actual 04/30/20)	FY2019 total	FY2018 total	FY2017 total	FY2016 total	FY2015 total			
Salaries	1,338.5	1,361.8	1,402.9	1,421.1	1,499.9	1,575.0	1,565.4	65.5	4.4%	3.18%	1,335.8	34.1%	34.1%	34.5%	34.2%	34.8%	34.9%			
Fringe Benefits	403.0	453.7	480.5	479.6	494.4	508.6	508.6	14.2	2.9%	4.76%	425.8	10.9%	11.3%	11.6%	11.7%	11.6%	10.5%			
Health Care	283.1	334.1	359.0	357.9	362.6	369.9	369.9	7.3	2.0%	5.49%	308.3	7.9%	8.3%	8.7%	8.7%	8.5%	7.4%			
Other	119.9	119.6	121.5	121.7	131.8	138.7	138.7	6.9	5.2%	2.96%	117.5	3.0%	3.0%	3.0%	3.0%	3.1%	3.1%			
Pension	287.0	297.3	317.7	316.7	360.8	362.0	362.0	1.2	0.3%	4.75%	310.7	7.9%	8.2%	7.7%	7.7%	7.6%	7.5%			
Contribution	147.7	150.6	152.4	167.6	201.5	206.1	206.1	4.6	2.3%	6.89%	176.9	4.5%	4.6%	4.1%	3.7%	3.8%	3.7%			
Health Care	103.8	105.0	130.2	136.0	145.4	146.7	146.7	1.3	0.9%	7.16%	125.9	3.2%	3.3%	3.3%	3.2%	2.7%	3.2%			
Other	35.5	41.7	35.1	13.1	13.9	9.2	9.2	(4.6)	-33.5%	-23.62%	7.9	0.2%	0.3%	0.3%	0.9%	1.1%	0.9%			
Debt Service	163.9	169.4	179.0	187.2	183.9	184.2	184.2	0.3	0.2%	2.36%	184.2	4.7%	4.2%	4.5%	4.4%	4.3%	4.3%			
Grants	377.9	349.6	365.7	362.9	445.2	502.0	533.8	88.6	19.9%	7.15%	454.8	11.6%	10.1%	8.8%	8.9%	8.9%	9.9%			
Medicaid	668.0	689.1	739.7	750.2	733.4	762.2	702.1	(31.3)	-4.3%	1.00%	618.6	15.8%	16.7%	18.2%	18.0%	17.6%	17.4%			
Contractual Services	511.9	513.6	537.6	526.1	589.0	646.8	599.2	10.2	1.7%	3.20%	501.8	12.8%	13.4%	12.8%	13.1%	13.1%	13.4%			
Supplies & Materials	68.0	66.9	68.7	61.9	69.3	68.1	66.2	(3.1)	-4.5%	-0.54%	54.6	1.4%	1.6%	1.5%	1.7%	1.7%	1.8%			
Capital Outlay	14.4	12.3	14.3	12.4	18.5	31.4	30.1	11.6	62.7%	15.89%	27.8	0.7%	0.4%	0.3%	0.3%	0.3%	0.4%			
FY Budgetary Expenditures	3,832.6	3,913.7	4,106.1	4,118.1	4,394.3	4,640.2	4,551.5	157.2	3.6%	3.50%	3914.0	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%			

Table 2. DEFAC General Fund Revenue Worksheet

<i>May-20</i> <i>DEFAC Meeting</i>	FY 2019	FY 2020				
	A Actual Collections	B DEFAC Apr-20	C % B over A	D DEFAC May-20	E % D over A	F \$ Increase D over B
Revenue Category						
Personal Income Tax	1,730.5	1,581.2	-8.6%	1,639.5	-5.3%	58.3
Less: Refunds	<u>(203.0)</u>	<u>(208.6)</u>	2.8%	<u>(198.8)</u>	-2.1%	<u>9.8</u>
PIT Less Refunds	1,527.5	1,372.6	-10.1%	1,440.7	-5.7%	68.1
Franchise Tax	906.2	936.9	3.4%	936.9	3.4%	0.0
Limited Partnerships & LLC's	322.0	<u>326.8</u>	1.5%	<u>316.8</u>	-1.6%	(10.0)
Subtotal Franchise + LP/LLC	1,228.2	1,263.7	2.9%	1,253.7	2.1%	(10.0)
Less: Refunds	<u>(12.0)</u>	<u>(12.0)</u>	0.0%	<u>(12.0)</u>	0.0%	<u>0.0</u>
Net Franchise + LP/LLC	1,216.2	1,251.7	2.9%	1,241.7	2.1%	(10.0)
Business Entity Fees	123.0	126.8	3.1%	126.8	3.1%	0.0
Uniform Commercial Code	25.2	26.8	6.3%	26.8	6.3%	0.0
Unclaimed Property	554.0	554.0	0.0%	554.0	0.0%	0.0
Less: Refunds	(114.3)	(100.0)	-12.5%	(106.0)	-7.3%	(6.0)
Unclaimed Prop Less Refunds	439.7	454.0	3.3%	448.0	1.9%	(6.0)
Gross Receipts Tax	259.3	234.9	-9.4%	251.1	-3.2%	16.2
Lottery	215.8	157.8	-26.9%	163.1	-24.4%	5.3
Corporation Income Tax	187.8	129.7	-31.0%	143.0	-23.9%	13.3
Less: Refunds	<u>(40.0)</u>	<u>(58.0)</u>	45.0%	<u>(46.0)</u>	15.0%	<u>12.0</u>
CIT Less Refunds	147.8	71.7	-51.5%	97.0	-34.4%	25.3
Realty Transfer Tax	154.3	160.0	3.7%	160.0	3.7%	0.0
Cigarette Taxes	122.6	115.0	-6.2%	115.0	-6.2%	0.0
Bank Franchise Tax	100.8	86.4	-14.3%	86.4	-14.3%	0.0
Insurance Taxes and Fees	86.6	81.5	-5.9%	70.1	-19.0%	(11.4)
Hospital Board and Treatment	35.4	28.7	-18.8%	26.7	-24.5%	(2.0)
Public Utility Tax	37.0	35.7	-3.5%	35.7	-3.5%	0.0
Alcoholic Beverage Tax	26.6	26.0	-2.3%	26.0	-2.3%	0.0
Dividends and Interest	24.9	53.7	115.6%	54.7	119.6%	1.0
Other Revenues	67.6	61.9	-8.5%	66.1	-2.3%	4.2
Less: Other Refunds	<u>(18.5)</u>	<u>(21.7)</u>	17.5%	<u>(20.4)</u>	10.4%	1.3
Net Receipts	4,591.9	4,323.5	-5.8%	4,415.5	-3.8%	92.0

Adj Growth Rate

-1.25%

Table 2. DEFAC General Fund Revenue Worksheet

May-20 DEFAC Meeting	FY 2021					FY 2022				
	G DEFAC Apr-20	H % G over B	I DEFAC May-20	J % I over D	K \$ Increase I over G	L DEFAC Apr-20	M % L over G	N DEFAC May-20	O % N over I	P \$ Increase N over L
Revenue Category										
Personal Income Tax	1,719.3	8.7%	1,792.5	9.3%	73.2	1,699.4	-1.2%	1,784.1	-0.5%	84.7
Less: Refunds	<u>(239.4)</u>	14.8%	<u>(249.2)</u>	25.4%	<u>(9.8)</u>	<u>(251.9)</u>	5.2%	<u>(251.9)</u>	1.1%	<u>0.0</u>
PIT Less Refunds	1,479.9	7.8%	1,543.3	7.1%	63.4	1,447.5	-2.2%	1,532.2	-0.7%	84.7
Franchise Tax	936.9	0.0%	936.9	0.0%	0.0	956.3	2.1%	956.3	2.1%	0.0
Limited Partnerships & LLC's	364.5	11.5%	364.5	15.1%	0.0	369.8	1.5%	369.8	1.5%	0.0
Subtotal Franchise + LP/LLC	1,301.4	3.0%	1,301.4	3.8%	0.0	1,326.1	1.9%	1,326.1	1.9%	0.0
Less: Refunds	<u>(10.0)</u>	-16.7%	<u>(10.0)</u>	-16.7%	<u>0.0</u>	<u>(10.0)</u>	0.0%	<u>(10.0)</u>	0.0%	<u>0.0</u>
Net Franchise + LP/LLC	1,291.4	3.2%	1,291.4	4.0%	0.0	1,316.1	1.9%	1,316.1	1.9%	0.0
Business Entity Fees	130.1	2.6%	130.1	2.6%	0.0	133.5	2.6%	133.5	2.6%	0.0
Uniform Commercial Code	27.5	2.6%	27.5	2.6%	0.0	28.2	2.5%	28.2	2.5%	0.0
Unclaimed Property	525.0	-5.2%	554.0	0.0%	29.0	500.0	-4.8%	500.0	-9.7%	0.0
Less: Refunds	<u>(110.0)</u>	10.0%	<u>(110.0)</u>	3.8%	0.0	<u>(110.0)</u>	0.0%	<u>(110.0)</u>	0.0%	0.0
Unclaimed Prop Less Refunds	415.0	-8.6%	444.0	-0.9%	29.0	390.0	-6.0%	390.0	-12.2%	0.0
Gross Receipts Tax	247.0	5.2%	236.1	-6.0%	(10.9)	276.1	11.8%	252.6	7.0%	(23.5)
Lottery	185.3	17.4%	171.9	5.4%	(13.4)	200.1	8.0%	187.3	9.0%	(12.8)
Corporation Income Tax	157.8	21.7%	166.8	16.6%	9.0	172.1	9.1%	172.1	3.2%	0.0
Less: Refunds	<u>(90.0)</u>	55.2%	<u>(90.0)</u>	95.7%	<u>0.0</u>	<u>(80.0)</u>	-11.1%	<u>(80.0)</u>	-11.1%	<u>0.0</u>
CIT Less Refunds	67.8	-5.4%	76.8	-20.8%	9.0	92.1	35.8%	92.1	19.9%	0.0
Realty Transfer Tax	155.0	-3.1%	155.0	-3.1%	0.0	169.1	9.1%	169.1	9.1%	0.0
Cigarette Taxes	114.6	-0.3%	114.6	-0.3%	0.0	111.3	-2.9%	111.3	-2.9%	0.0
Bank Franchise Tax	79.9	-7.5%	79.9	-7.5%	0.0	91.3	14.3%	91.3	14.3%	0.0
Insurance Taxes and Fees	100.3	23.1%	88.4	26.1%	(11.9)	88.0	-12.3%	76.0	-14.0%	(12.0)
Hospital Board and Treatment	30.5	6.3%	28.5	6.7%	(2.0)	30.8	1.0%	30.8	8.1%	0.0
Public Utility Tax	34.9	-2.2%	34.9	-2.2%	0.0	33.6	-3.7%	33.6	-3.7%	0.0
Alcoholic Beverage Tax	25.4	-2.3%	27.5	5.8%	2.1	27.9	9.8%	27.9	1.5%	0.0
Dividends and Interest	27.0	-49.7%	35.0	-36.0%	8.0	24.5	-9.3%	24.5	-30.0%	0.0
Other Revenues	59.1	-4.5%	59.1	-10.6%	0.0	63.3	7.1%	63.3	7.1%	0.0
Less: Other Refunds	<u>(19.8)</u>	-8.8%	<u>(19.8)</u>	-2.9%	0.0	<u>(19.6)</u>	-1.0%	<u>(19.6)</u>	-1.0%	0.0
Net Receipts	4,450.9	2.9%	4,524.2	2.5%	73.3	4,503.8	1.2%	4,540.2	0.4%	36.4

Adj Growth Rate

[-4.75%](#)[6.25%](#)

Table 3. Balance and Appropriations Worksheet

May 2020

FY 2020 EXPENDITURES

Total Spending Authority	\$5,082.8
Less: Continuing Appropriations & Encumbrances from FY 2020	(\$393.7)
Less: Reversions	<u>(\$137.6)</u>
Total Expenditures	\$4,551.5

FY 2020 BALANCES

Total Expenditures	\$4,551.5
vs. FY 2020 Revenues	4,415.5
Operating Balance	(136.0)
Prior Year Cash Balance	947.5
Less: Budget Stabilization Fund (82 Del Law c 64; HB 225, Section 77)*	<u>(\$126.3)</u>
Cumulative Cash Balance	685.2
Less: Continuing Appropriations & Encumbrances from FY 2020	(393.7)
Less: Budgetary Reserve Account	<u>(\$252.4)</u>
Unencumbered Cash Balance 6/30	\$39.1

FY 2021 APPROPRIATION LIMITS

FY 2021 Revenue Estimate	\$4,524.2
Unencumbered Cash Balance from FY 2020	<u>\$39.1</u>
100% Appropriation Limit	\$4,563.3
98% Appropriation Limit	<u>\$4,472.0</u>
Prior 98% Appropriation Limit	\$4,214.9
Increase (Decrease) from Prior Meeting	\$257.1
Sept. 2019 98% Appropriation Limit	\$4,763.3
Increase (Decrease) from September 2019	(\$291.3)

FY 2020 BUDGET

Budget	\$4,451.9
Grants	\$55.1
Supplemental	\$246.3
Total Appropriations	\$4,753.3
Plus: Continuing Appropriations & Encumbrances from Prior Years	<u>\$329.6</u>
Total Spending Authority	\$5,082.8

Table 4.

Delaware Department of Transportation FY 2020 Expenditures, Through April 30, 2020												
	FY2018 Actual	FY2019 Actual	FY2020 Appropriation	SEPTEMBER FY2020 Forecast	DECEMBER FY2020 Forecast	MARCH FY2020 Forecast	APRIL FY2020 Forecast	MAY FY2020 Forecast	\$ difference	\$ difference Forecast V. FY2019 Actual	FY2020 YTD Spend	83% % spent YTD
Operations			w/o US301									
Debt Service	91.6	94.5	91.5	91.5	91.5	91.5	91.5	91.5	0.0	(3.0)	91.5	100%
Personnel Costs	90.7	96.9	96.6	96.6	96.6	96.6	96.6	102.9	6.3	6.0	86.5	84%
Operations/Capital Outlay	62.8	64.4	69.3	69.3	69.3	69.3	69.3	63.9	(5.4)	(0.5)	49.3	77%
Transit Operations (DTC)	89.8	93.2	94.8	94.8	94.8	94.8	94.8	94.8	0.0	1.6	79.0	83%
Total Expenditures - Operations	334.9	349.0	352.2	352.2	352.2	352.2	352.2	353.1	0.9	4.1	306.3	87%
State Capital												
Road System	146.4	202.6	236.3	236.3	236.3	241.8	241.8	241.8	0.0	39.2	194.0	80%
Grants & Allocations	24.7	30.6	38.3	38.3	38.3	38.3	38.3	38.3	0.0	7.7	31.2	81%
Support Systems	42.9	51.0	55.6	55.6	55.6	55.6	55.6	55.6	0.0	4.6	43.9	79%
Transit	19.9	28.0	41.2	41.2	41.2	35.7	35.7	35.7	0.0	7.7	22.8	64%
State Capital	233.9	312.2	371.4	371.4	371.4	371.4	371.4	371.4	0.0	59.2	291.9	79%
Federal Capital												
Federal Capital	233.9	215.7	280.0	280.0	280.0	280.0	280.0	280.0	0.0	64.3	216.4	77%
Total Expenditures - Capital	467.8	527.9	651.4	651.4	651.4	651.4	651.4	651.4	0.0	123.5	508.3	78%
TOTAL EXPENDITURES	802.7	876.9	1,003.6	1,003.6	1,003.6	1,003.6	1,003.6	1,004.5	0.9	127.6	814.6	81%

	SEPTEMBER FY2020 Forecast	DECEMBER FY2020 Forecast	MARCH FY2020 Forecast	APRIL FY2020 Forecast	MAY FY2020 Forecast	\$ difference	\$ difference Forecast V. FY2019 Actual	FY2020 YTD Spend	% spent YTD
DeIDOT	1,003.6	1,003.6	1,003.6	1,003.6	1,004.5	\$ 0.9	\$ 127.6	\$ 814.6	81%
US301	42.5	42.5	35.7	35.7	35.7	\$ -	\$ (53.7)	\$ 33.7	94%
TOTAL	1,046.1	1,046.1	1,039.3	1,039.3	1,040.2	\$ 0.9	\$ 73.9	\$ 848.3	82%

Table 5.

DELAWARE DEPARTMENT OF TRANSPORTATION Transportation Trust Fund Revenues									
	FY18	FY19	% Chg.	Fiscal 2020			Fiscal 2021		
				4/20/20 Approved	5/21/20 Recomm	% Chg. FY 19	4/20/20 Approved	5/21/20 Recomm	% Chg. FY 20
<u>TOLL ROAD REVENUES:</u>									
I95 Newark Plaza	\$132.7	\$134.9	1.7%	\$116.8	\$116.8	-13.4%	\$132.1	\$132.1	13.1%
Route 1 Toll Road	62.0	62.5	0.8%	\$55.7	\$55.7	-10.9%	\$62.4	\$62.4	12.0%
Concessions	<u>2.4</u>	<u>2.4</u>	<u>0.0%</u>	<u>\$2.0</u>	<u>\$2.0</u>	<u>0.0%</u>	<u>\$2.2</u>	<u>\$2.2</u>	<u>0.0%</u>
Total Toll Road Revenues	197.1	199.8	1.4%	\$174.5	\$174.5	-12.7%	\$196.7	\$196.7	12.7%
MOTOR FUEL TAX ADMIN.	132.9	144.7	8.9%	\$136.0	\$136.0	(6.0%)	\$147.7	\$147.7	8.6%
<u>DIVISION OF MOTOR VEHICLES</u>									
Motor Vehicle Document Fees	116.2	119.8	3.1%	\$114.8	\$114.8	-4.2%	\$115.0	\$115.0	0.2%
Motor Vehicle Registration Fees	55.3	58.1	5.1%	\$51.0	\$51.0	-12.2%	\$58.4	\$58.4	14.5%
Other DMV Revenues	<u>39.6</u>	<u>40.9</u>	<u>3.3%</u>	<u>\$38.1</u>	<u>\$38.1</u>	<u>-6.7%</u>	<u>\$42.0</u>	<u>\$42.0</u>	<u>10.2%</u>
Total DMV Revenues	211.1	218.8	3.6%	\$203.9	\$203.9	-6.8%	\$215.4	\$215.4	5.6%
<u>OTHER TRANSPORTATION REV.</u>									
Other Transportation Rev	13.0	12.6	-3.1%	\$11.0	\$11.0	-12.7%	\$12.0	\$12.0	9.1%
Investment Income(Net)	<u>6.8</u>	<u>5.5</u>	<u>-19.1%</u>	<u>\$5.9</u>	<u>\$5.9</u>	<u>7.3%</u>	<u>\$5.0</u>	<u>\$5.0</u>	<u>-15.3%</u>
Total Other Transp. Revenue	19.8	18.1	-8.6%	\$16.9	\$16.9	-6.6%	\$17.0	\$17.0	0.6%
GRAND TOTAL	\$560.9	\$581.4	3.7%	\$531.3	\$531.3	-8.6%	\$576.8	\$576.8	8.6%

	FY18	FY19	% Chg.	Fiscal 2020			Fiscal 2021		
US301 Revenues	\$ -	\$ 7.0		\$ 19.8	\$ 19.8		\$ 21.0	\$ 21.0	
TOTAL	\$ 560.9	\$ 588.4	4.9%	\$ 551.1	\$ 551.1	-6.3%	\$ 597.8	\$ 597.8	8.5%