

With DEFAC about to meet, a recap of Delaware's fiscal condition

By Dr. John Stapleford, CRI Chair, 12/17/2018

What is DEFAC and why is it important?

DEFAC is the Delaware Economic and Financial Advisory Council. Although the Governor appoints members, DEFAC is intended to be an independent, oversight group that reviews the state revenues and expenditures.

DEFAC last met in September of this year, what was DEFAC's outlook for the current fiscal year, FY19?

DEFAC projected that total general fund revenues would increase by only 0.4%.

Wow! So, with incoming revenues projected to be flat, will Dover really be able to keep spending flat?

No. The current DEFAC expenditure estimate already projects a FY19 deficit. According to the National Association of State Budget Officers, Delaware would be only one of five states to have a shortfall in this booming economy.

Meanwhile, state employee health care benefits are expected to increase 7.4% and health care benefits for retirees by 8.7%. The current unfunded state health care and pension liability is estimated by the Mercatus Center to be \$13B, and Mercatus ranks DE 44th among the states in fiscal health.

And, DEFAC expects FY19 Medicaid spending to increase 5.3%...approaching \$800B...and capital spending to rise 32%.

In other words, if state spending is not curtailed right now, we are – by default – once again going to have fiscal chaos in the Spring.

If you are an economist, what are DEFAC's underlying assumptions about DE's economy and are you in agreement with them?

As of September, DEFAC projected an annual growth rate in employment of 1.2% for FY19 and FY20 and 3.4% growth in DE wages and salaries in FY19 bumping up to 3.7% in FY20. In my opinion, both are too optimistic.

For instance, the Delaware Dept. of Labor's (DDOL) employment growth rate projection for 2019 is 0.9% dropping to 0.6% thereafter. And through the beginning of 2018 DE wages and salaries have been growing at 2.6% (compared to 4.3% across the nation).

Can't the political leaders in Dover take some actions that will turn Delaware's economy around?

There have been four studies done recently regarding an economic development strategy for Delaware: DEDO, New Castle County government, the Delaware Business Roundtable, and CRI's Dave Stevenson.

There is consensus among the studies as to the current major impediments to Delaware economic growth: low quality public education, high crime in the City of Wilmington, runaway industrial electric rates, onerous and anti-business development processes-especially from DNREC and DelDOT, New Castle County land use code, and no Right to Work law. The prestigious Tax Foundation rates Delaware 50th in corporate taxation!

At this time, there is no political leadership to address any of these solvable problems.