

## LEGISLATIVE PRIORITY

# A Moving Target What to Expect in 2021

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AS OF THIS WRITING, the Delaware Economic and Financial Advisory Council (DEFAC) held their May meeting last week, with one more in June before the General Assembly passes the state's Fiscal Year 2021 budget. While projections and estimates seem to change by the minute, there are a few things to be watching over the summer and into the fall related to economic recovery and what the impact to state expenditures will be in 2021.

### Medicaid Growth

Delawareans eligible for Medicaid increased by 3,000 to a total of 238,000. Financial increases from the federal government are expected to terminate at the end of 2020, so tracking the number of newly eligible Medicaid participants who remain eligible as the economy improves will be an important marker. Even if those 3,000 individuals transition off of Medicaid, 25 percent of Delawareans will still be receiving Medicaid. If you add in state employees, their families, and Medicare almost half of Delaware's citizens are receiving some measure of publicly subsidized health care. These costs are expected to rise.

### Unemployment

On May 28, just shy of the Phase 1 re-opening, Delaware unemployment claims surpassed 100,000. As reported by DEFAC, 95,824 claims were filed between March 15 and May 15, with \$234,783,265 in unemployment insurance benefits paid. The state share of the cost was \$91,932,638. It is expected that Delaware's unemployment insurance fund will dry up in June, necessitating borrowing from the federal government for future payments. Some of the CARES Act dollars allocated to the state will be shifted to help cover unemployment costs, lessening the amount to be borrowed, but any borrowing will have an adverse impact on next year's overall spending. It also remains to be seen what unemployment insurance rate increases businesses will face in October.

### Long Term Impacts on Traditional Revenue Streams

Long term uncertainty remains about the impact to residential and commercial real estate, the realty transfer tax, and the subsequent impact on those revenue streams. Governor Carney was prudent to classify construction as essential to not only ward off additional unemployment claims, but to keep up with the demand for new homes, road improvements, and new infrastructure.



As businesses adapt to large swaths of employees working from home, in many cases working more productively, significant changes to the dedicated physical space businesses require could be on the horizon. Downstream impacts, such as Wilmington's wage tax, will require creative measures to insure solvency.

Corporate income tax and personal income tax filings are both predicted to take a significant hit next year. Personal income tax is the top revenue stream to the state, and while so far high wage workers have not suffered significant job losses, it will be interesting to see what the current 40% layoffs in hospitality workers translates into when federal unemployment ends in July.

All told, there remains much uncertainty—whether there will be a resurgence of COVID-19 in the fall and what that economic impact will look like, how changes made during this time related to how employees work will impact real estate, office environments, the work-from-home movement, and how all of these issues, and others, will further impact Delaware's budget process.



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