Delaware State Revenues in the Age of COVID-19

BY RICK GEISENBERGER

OVER 40 PLUS YEARS, the Delaware Economic and Financial Advisory Council (DEFAC) had seemingly seen it all – the Great Recession, double digit interest rates, stock market crashes and corrections, and the list goes on. But nothing prepared DEFAC for a global pandemic.

Early in the COVID-19 crisis, economic forecasts were all over the map. As DEFAC gathered virtually last spring, it faced the widest range of possible outcomes in its history and a dearth of actual data. 2020 GDP might shrink 15% or grow 1%. Personal income might shrink 8.5% or grow 3.5%.

It was thought the State's major sources of revenue would tank in response to record unemployment, stay-at-home advisories, and business restrictions. Casino revenues had dropped to zero, April due dates for income taxes were moved to July, and gross receipts tax revenues were dropping dramatically. DEFAC responded by shaving a record $785 million from its two-year forecast – 17% of the State's operating budget.

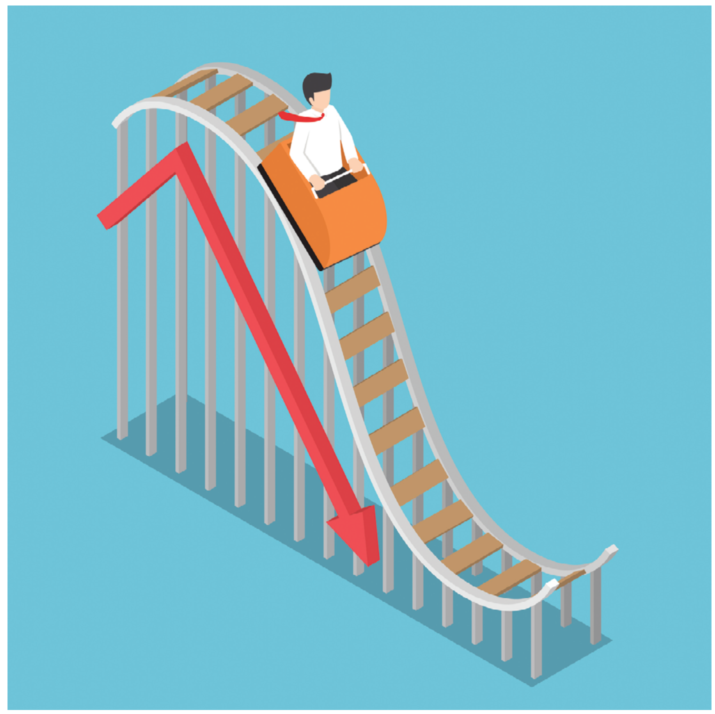
What was not fully appreciated at the time was the positive impact of the Governor's decision to define most Delaware employers as essential combined with federal stimulus and the incredible adaptability of our residents and businesses.

Delaware individuals received $1.7 billion of stimulus including Economic Impact Payments and unemployment insurance benefits. The vast majority of Delaware businesses remained open and those most impacted received more than $2 billion from the Paycheck Protection Program and other CARES Act funding.

Through October, DEFAC was able to add back two-thirds ($529 million) of what it originally deducted from its forecast. Job losses in higher wage fields have (knock on wood) been relatively limited. The State's corporate franchise has held up well. While hospitality revenues have declined dramatically, consumer activity migrated to grocery, retail and home improvements activity that are subject to gross receipts taxes. Casinos re-opened and lottery sales of instant and draw games have set records. Home sales ballooned with record low interest rates and in-migration from higher density areas.

But the pandemic is tricky. As I write this in November 2020, COVID-19 cases and hospitalizations are surging in the U.S. and globally. But the prospects for a safe and effective vaccine are also improving. Exactly how this plays out in 2021 is anyone's guess.

The good news is that Delaware was better prepared for this downturn than at any time in recent history. Since 2017, Governor Carney and the Delaware General Assembly partnered to reduce the State's



tendency toward budgetary 'feast or famine.' The concept, known as 'budget stabilization,' sets operating budget growth at an economically sustainable level and then dedicates any 'extraordinary' revenues to one-time expenditures such as infrastructure investments and additional reserves to help weather future revenue shortfalls.

Sounds like common sense and it works. In June 2020, the General Assembly enacted, and the Governor signed a balanced budget drawing half the reserves that had built up during the two prior years. Statutory mandates and contractual obligations were fully funded, and there was no need for budget cuts or tax increases.

We can't know what 2021 and the pandemic have in store for us. But we do know that if we stick together and follow this tested fiscal roadmap, Delaware will successfully navigate this crisis and emerge fiscally stronger than ever. ■

Rick Geisenberger is Delaware's Secretary of Finance.