

Ensuring Sustainable Budget Growth

BACKGROUND – Between 2001 and 2017, the State experienced six budget deficits over a period with only two recessions. After a \$400 million budget deficit in 2017, the 149th General Assembly created the DEFAC Advisory Panel on Potential Fiscal Controls and Budget Smoothing Mechanisms (Panel). The [Panel reported](#) that these deficits were correlated with higher volatility in Delaware’s revenue structure and a tendency to budget into operating revenue peaks. The Panel recommended building on existing fiscal controls by 1) setting a budget Benchmark Index and Appropriation to guide the budget development process and 2) creating a Budget Stabilization Fund (BSF) to build meaningful reserves during periods with extraordinary revenues that would be available to bridge periods with revenue shortfalls.

In 2018, the Governor formalized an advisory Budget Benchmark with [Executive Order 21](#). In 2019, the General Assembly created a [BSF in budget epilogue \(Section 77\)](#). The State then largely adhered to these reforms through multiple consecutive budgets – avoiding the continuation of the cycle of budget shortfalls, and successfully building usable reserves available for future downturns. In 2023, the [DEFAC Benchmark Evaluation and Review Panel](#) recommended that the State retain and institutionalize the flexibility inherent in these advisory reforms and codify them. In 2024, the General Assembly enacted and the Governor signed [Senate Bill 270](#). The new law:

1. Requires the Governor Recommended Budget to consider the advisory benchmark methodology and detail any budget proposals in relation to state revenues or reserve funding.
2. Provides for an advisory Benchmark and Budget Stabilization Fund (BSF) by:
 - a. Establishing an advisory Benchmark Index to provide policymakers with an objective and stable measure of sustainable budget growth using economic indicators that reflect both the means and needs of the State. The Index is comprised of equal weightings of the 3-year average of 1) Delaware personal income growth and 2) Delaware population growth plus state and local government inflation (aka “the implicit price deflator”).
 - b. Establishing an advisory Benchmark Appropriation equal to (i) the product of the Benchmark Index and the sum of the prior year operating budget and grants in aid appropriations (including mandated OPEB contributions) (ii) plus 1% of the prior year operating budget to account for base “cash to the bond-bill” needs.
 - c. Requiring DEFAC to 1) report the benchmark along with a statement of state reserves to the Governor and General Assembly each December and May and 2) review and recommend changes to the advisory Benchmark Index every four years.
 - d. Codifying the BSF as a reserve account in which funds may be withdrawn for the current year or made available for the budget after a simple majority vote of each House of the General Assembly. Providing for the circumstances when deposits to the BSF should be capped (7% of estimated State General Fund revenues) and when the Governor’s Recommended Budget should propose and detail recommended deposits to or withdrawals from the BSF.