

DEFAC Benchmark Evaluation and Review Panel



March 20, 2023

Current Benchmark Index

- Intended to “approximate a long-run level of sustainable resources and expenditures and provide policymakers with guidance as to the need to make ongoing adjustments to the State’s revenue and expenditure portfolios”
- Equally-weighted economic measures
 - Total personal income;
 - Sum of population and inflation (as measured by the implicit price deflator for S&L gov’t purchases)

Personal Income

- Income for provision of labor, land, and capital used in *current production*, plus current transfer receipts less contributions for government social insurance
 - Wage and salary income
 - Supplements to wages and salaries
 - Proprietors' income
 - Dividends, interest and rent
 - Transfer payments
- Produced by US Bureau of Economic Analysis as part of National Income and Product Accounts (GDP data)

Income Definitions

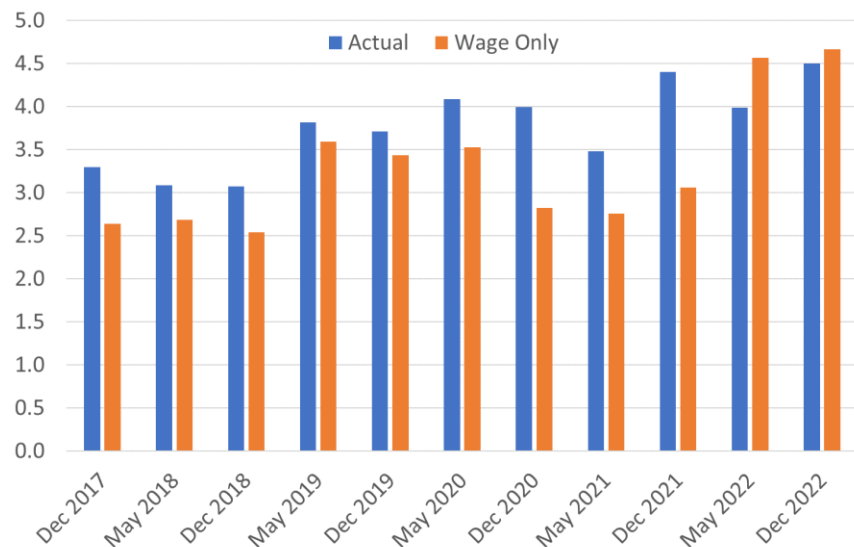
- Wage and salary—total remuneration, in cash and kind, of employees, including commissions, tips, bonuses, nonqualified stock options
- Dividends, Interest and Rent—self-explanatory, but includes imputed income, such as homeowner’s rent
- Transfer payments—income for which no services are performed and insurance settlements, including Social Security, UI benefits, SNAP, refundable tax credits, and ARPA Economic Impact payments
- Capital gains are not from current production, so not included in personal income

Transfer Payments and Wages

- Wages are roughly half of DE personal income
- Transfer payments 20% from 2010 to 2019, jumped to 23.5% and 25.5% in 2020 and 2022

Avg. Ann. Growth	Wage & Salary	Transfer Payments	Total Pers. Inc.
2012 – 2019	3.4%	5.3%	3.9%
2020	1.3%	19.2%	4.4%
2021	3.7%	15.5%	6.4%
2022	8.5%	(8.5%)	3.6%

Index with Wage & Salary Income



- Eliminates effects of transfer payments
- In recent years results in generally lower Index, but not always

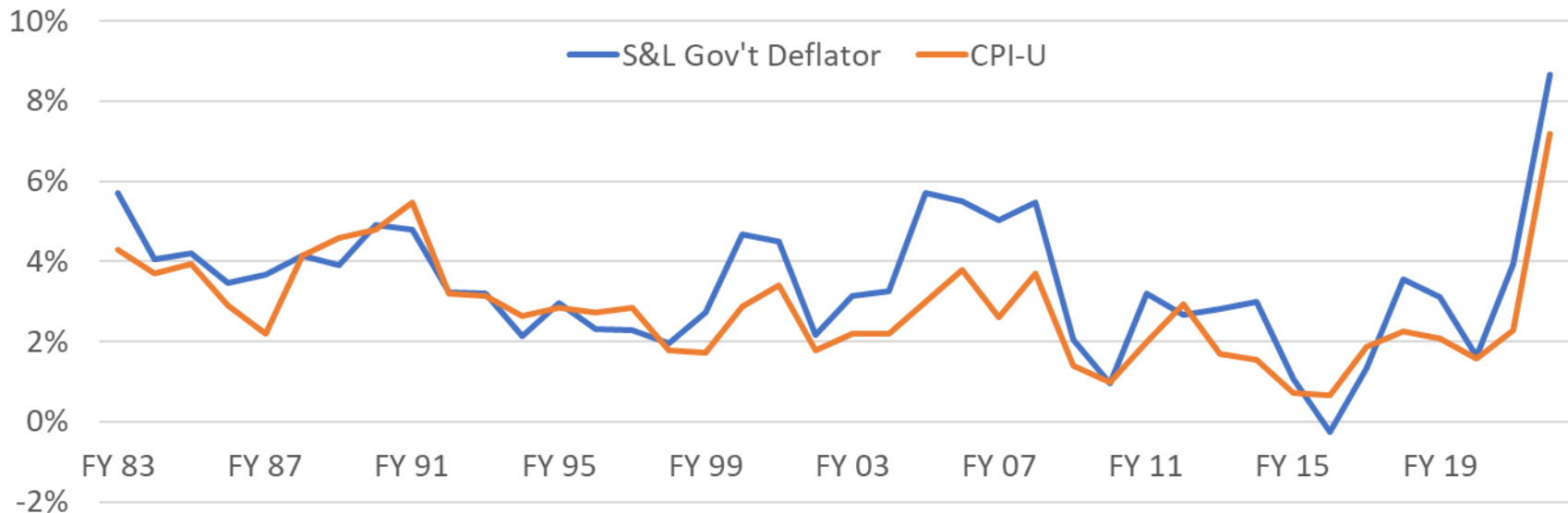
- Is extraordinary growth in transfer payments during COVID pandemic reason to use wage and salary income only, or exclude transfer payments from Index?

Proper Income Measure for Index?

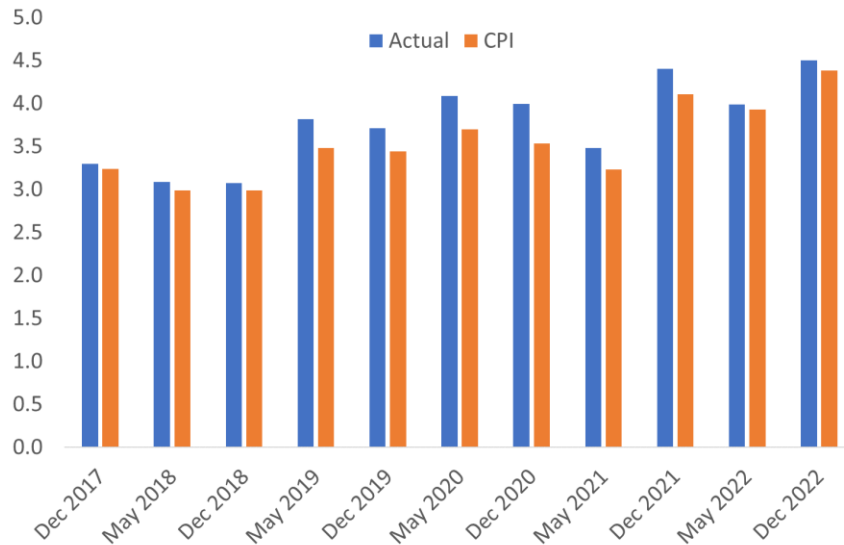
- Does total personal income reflect “sustainable resources and expenditures”?
 - Not all personal inc. is taxable...or even income
 - Does not include capital gains (data for which lags several years)
- Would wage and salary income be better?
 - One dollar of transfer payments may (generally) drive demand like one dollar of wage income
 - What about other types of income?
 - Is 2020 slowdown in wages more distortive than increase in transfer payments?

CPI vs. S&L Gov't Purchases Deflator

CPI	Expenditure	Deflator
27.6%	Services	95.2%
34.0%	Shelter / Consumption of Capital	12.0%
38.4%	Goods	19.4%
N/A	Other	(26.6%)



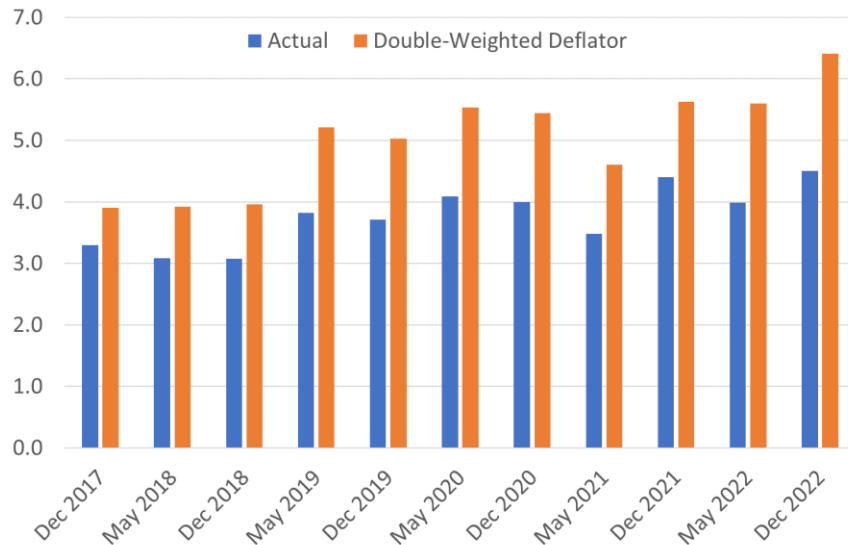
Index with CPI



- Index would generally but not always be lower with CPI
- Deflator reflects government spending

- Is there any logical or compelling reason to use a consumer measure rather than government?

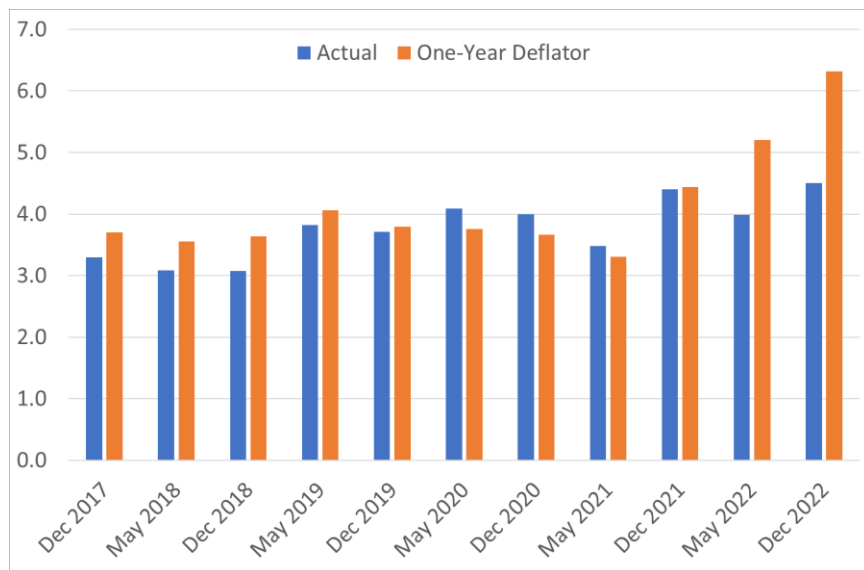
Index with 2X Deflator



- Index is always higher (unless deflation) due to simple math
- Any additional weight provides same result

- Inflation arguably enters the current Index through nominal, rather than real, measure of personal income

Index with Single-Year Deflator



- Provides more rapid response to inflation, but in “normal” times may not change results much

- Results in larger drop on other side of inflation
- Reduces smoothing impact, but sustainable?
- Is more immediate flexibility worth quicker tightening?

Proper Inflation Measure for Index?

- The CPI measures price changes of a fixed basket of (urban) consumer goods and services, updated annually
- The implicit price deflator for state and local government purchases measures price changes of all (quarterly) government spending, not a fixed basket
- Does the Index restrict appropriations unnecessarily in times of high inflation?

Summary of Index Alternatives

December Benchmark	Official	Wage & Salary	CPI	2x Deflator	1-year Deflator
2017	3.1%	2.7%	3.0%	3.9%	3.6%
2018	3.8%	3.6%	3.5%	5.2%	4.1%
2019	4.1%	3.5%	3.7%	5.5%	3.8%
2020	3.5%	2.8%	3.2%	4.6%	3.3%
2021	4.0%	4.6%	3.9%	5.6%	5.2%
2022	6.1%	6.6%	5.5%	9.4%	6.3%
<i>Std. Dev.</i>	0.8	1.1	0.7	1.4	1.0
<i>Dec. Std. Dev.</i>	1.0	1.3	0.8	1.8	1.0

Benchmark Appropriation Variations

	Current	Current (strict adherence)	Wage	CPI	2x Deflator	1-year Deflator
FY 2020	\$4,529.9	\$4,477.3	\$4,442.7	\$4,460.1	\$4,576.7	\$4,511.9
FY 2024	\$5,586.4	\$5,433.4	\$5,292.1	\$5,336.0	\$5,969.2	\$5,553.4
FY 2024 Operating Budget	More available	BASE	Less available	Less available	More available	More available
FY 2024 BSF & One-Time Expend.	Less available	BASE	More available	More available	Less available	Less available

Conclusions

- No measure perfectly captures “long-run level of sustainable resources and expenditures”
- But, original benchmark index construction appears conceptually sound
- Only one alternative may be reasonable
- Mandatory periodic revisiting is important, especially as the sample size is small

Statutory BSF: Legislative Outline

- Section 1: Requires OMB Director to add the following to the GRB report to the Governor:
 - Statement of existing reserve funding (BRA, BSF, 2% set aside)
 - Benchmark Appropriation calculation, and
 - Proposed plan for reserve funding.
- Section 2: Requires the Governor's Recommended Budget (GRB) bill to comply with the Benchmark Appropriation and Budget Stabilization Fund (BSF) requirements set forth in the bill.
- Section 3 (Part 1 – Lines 64-92):
 - Aligns the statute to mirror other Constitutional language.
- Section 3 (Part 2 – Lines 93-136):
 - Codifies the establishment of the BSF and solely for purposes of the GRB, codifies Executive Orders 21 & 52 (Benchmark Appropriation and OPEB Carveout) and sets rules for how the GRB shall propose deposits and withdrawals from the BSF.

Statutory Section 1 Amends §6334(b) of Title 29

38 (3) A statement of existing reserve funding available as of the beginning of the current fiscal year to

39 include:

40 a. the balance in the Budget Reserve Account established in Article VIII § 6 of the

41 Delaware Constitution;

42 b. the 2 percent set-aside as determined by the 98 percent appropriation limit set forth in Article

43 VIII § 6 of the Delaware Constitution;

44 c. the balance that was allocated to the Budget Stabilization Fund as established in §6533 (i) of

45 this title;

46 ~~(3)~~ (4) A statement setting forth the total funds, including budget act and supplemental appropriation
47 for grant-in-aid not to exceed the Benchmark Appropriation as established in §6533 (h) of this title,

48 required to meet the budget for the ensuing fiscal year, together with any proposed plan for financing

49 these requirements and measures, if any, which the Governor may deem necessary or advisable in

50 relation to state revenue or reserve funding;

The OMB Director's proposed budget report:

- shall state the balance of the BRA, BSF and 2% set aside
- shall not exceed the Benchmark Appropriation subject to exceptions as further defined
- may include reserve funding plans

Statutory Section 2 Amends §6335(a) of Title 29

55 (a) The Governor upon receipt of the report of the Director of the Office of Management and Budget may make such
56 changes in the report as the Governor may deem necessary or desirable in accordance with the Governor's own best
57 judgment and conclusion and shall submit the budget report as prepared by the Governor based upon the report of the
58 Director of the Office of Management and Budget to each House of the General Assembly, on or before February 1
59 of each year, and at the same time the Governor submits the proposed budget, the Governor shall submit copies of a
60 tentative bill for all proposed appropriations for the budget, clearly itemized and properly classified for the ensuing
61 fiscal year. The tentative bill for all proposed appropriations for the budget shall be established pursuant to the
62 Benchmark Appropriation and Budget Stabilization Fund requirements as set forth in § 6533 (h) - (j) of this title. This
63 bill shall be known as the "Budget Appropriation Bill."

The Governor's
"tentative bill" aka
GRB shall comply
with the
Benchmark
Appropriation and
Budget
Stabilization Fund
requirements set
forth in the bill.

Part 1:

Statutory Section 3 Amend § 6533 (b) of Title 29

90 The General Assembly by three-fifths vote of the members elected to each House may appropriate from the Budget
91 Reserve Account such additional sums as may be necessary to fund any unanticipated deficit in any given fiscal year
92 or to provide funds required as a result of any revenue reduction enacted by the General Assembly. address the
93 purposes allowed under Article VIII § 6 of the Delaware Constitution.

Aligns BRA
withdrawal rules
with language in the
Constitution

Part 2a:new § 6533 (h)of Title 29

Benchmark Appropriation and Index

93 (h) There is hereby established a Benchmark Appropriation, to be calculated for any given fiscal year as the sum of
94 (1) the product of (x) the Benchmark Index for such fiscal year and (y) the sum of the previous fiscal year's budget
95 act and appropriations for grants in aid, plus (2) an amount not to exceed 1 percent of the previous fiscal year's budget
96 act, but only to the extent that such amount is directed as a supplemental appropriation to the bond and capital
97 improvements act for such fiscal year, plus (3) an amount not to exceed 1 percent of the previous fiscal year's budget
98 act, but only to the extent that such amount is directed as a supplemental appropriation to fund the Other Post-
99 Employment Benefits Trust as established by § 5281 of this title.

100 (1)The Benchmark Index shall be comprised of relevant indicators of growth in the State's economy and
101 initially be comprised of equal weightings of the three years average from the current and two preceding
102 fiscal years of:

103 a. Delaware personal income growth and

104 b. Delaware population growth plus the growth in the implicit price deflator for state and local
105 government purchases.

106 (2) The Benchmark Index shall be estimated and reported by the Delaware Economic and Financial Advisory
107 Council (or its successor entity) in December and May of each fiscal year.

108 (3) The Delaware Economic and Financial Advisory Council (or its successor entity) shall review the impacts
109 of and recommend changes to the calculation of the Benchmark Index with a report to the Governor and
110 General Assembly no later than October 31st of the fiscal year of a General Election for the Governor of this
111 State.

Codifies the Benchmark Index and Appropriation calculation in Executive Orders 21 and 52.

Requires DEFAC to review the Index and recommend any changes to the Governor and General Assembly every 4 years.

Part 2b:new § 6533 (i)of Title 29

Budget Stabilization Fund Deposits and Withdrawals

112 (i) There is hereby established a Budget Stabilization Fund as a reserve account. Deposits to and appropriations and
113 withdrawals from the Budget Stabilization Fund are authorized as follows:

114 (1) Whenever estimated unencumbered funds are projected to be negative during the current fiscal year,
115 a joint revenue resolution may be passed by a majority of the members elected to each House of the General
116 Assembly and signed by the Governor which subtracts funds from the Budget Stabilization Fund and includes
117 them in a revision of estimated unencumbered funds.

118 (2) Whenever the 98 percent limit for the subsequent fiscal year is more than the Benchmark
119 Appropriation for such fiscal year, the report and the tentative bill required by § 6335(a) of this title shall
120 detail the proposed distribution of such an excess between deposits to the Budget Stabilization Fund and
121 appropriations for non-recurring expenditures and reductions in long-term liabilities.

122 (3) Whenever the 98 percent limit for any given fiscal year is less than the Benchmark Appropriation
123 for such fiscal year, the report and the tentative bill required by § 6335(a) of this title shall detail whether and
124 how much funding is proposed to be subtracted from the Budget Stabilization Fund and included in estimated
125 unencumbered funds when determining the joint revenue resolution approved from time to time by a majority
126 of the members elected to each House of the General Assembly and signed by the Governor.

Codifies establishment of the BSF. BSF funds may be “appropriated” when estimated unencumbered funds go negative.

When there are “excess revenues” above the 98% limit, the GRB must detail distribution plans for the excess between the BSF and one-time expenditures and debt reduction (until the BSF reaches 5% [see lines 131-134]).

GRB may propose ensuing year withdrawals if the Benchmark Appropriation is less than the 98% limit.

Part 2c:new § 6533 (j)of Title 29

Budget Stabilization Fund Limits (solely for GRB purposes)

127 (j) Notwithstanding subsection (i) of this section, deposits to and appropriations and withdrawals from the Budget

128 Stabilization Fund for the report and the tentative bill required by § 6335(a) of this title shall be limited as follows:

129 (1) No deposit shall be made that would increase the balance of the Budget Stabilization Fund to more than

130 7 percent of only the estimated State General Fund revenues as determined pursuant to subsection (b) of this

131 section. Should an excess arise as described in subsection (i)(2) when the balance of the Budget Stabilization

131 section. Should an excess arise as described in subsection (i)(2) when the balance of the Budget Stabilization

132 Fund is at or above 5 percent, 50 percent of such an excess shall be appropriated for non-recurring

133 expenditures and reductions in long-term liabilities and 50 percent of such an excess may be appropriated for

134 any purpose.

135 (2) Appropriations and withdrawals from the Budget Stabilization Fund for any given fiscal year shall not

136 exceed 50 percent of the balance of the Budget Stabilization Fund.

No deposits to the BSF may be proposed in the GRB that would bring the BSF balance above 7% of general fund revenues.

If the BSF \geq 5%, the GRB must propose to put 50% of “excess revenues” toward one-times and may use the remaining 50% for any purpose (One-time or base budget)

Solely for purposes of the GRB, only 50% of the BSF balance may be proposed to be withdrawn in any fiscal year.

Constitutional Amendment

9 (b) No appropriation, supplemental appropriation or budget act shall cause the aggregate State General Fund
10 appropriations enacted for any given fiscal year to exceed 98 percent of the estimated State General Fund revenue for
11 such fiscal year from all sources, including estimated unencumbered funds remaining at the end of the previous fiscal
12 year. An act approved pursuant to § 3 of this article shall not be considered an appropriation for the purpose of this
13 section. Estimated unencumbered funds are calculated by taking the estimated General Fund cash balance at the end
14 of the fiscal year less estimated revenue anticipation bonds or notes, estimated encumbrances, estimated continuing
15 appropriations, and the amount of the Budget Reserve Account as established in subsection (d) of this section, and the
16 amount of any reserve accounts titled the Budget Stabilization Fund at the end of said fiscal year. The amount of said

Excludes the BSF from unencumbered funds.

20 (c) Notwithstanding subsection (b) of this section, any portion of the amount between 98 and 100 percent of
21 the estimated State General Fund revenue for any fiscal year as estimated in accordance with subsection (b) of this
22 section may be appropriated in any given fiscal year in the event of ~~emergencies involving an emergency affecting~~
23 the health, safety or welfare of the citizens of the State, such appropriations to be approved by three-fifths of the
24 members elected to each House of the General Assembly.

Clarifies when appropriations can exceed the 98% limit.

32 supplemental and automatic appropriations for said ensuing fiscal year less estimated reversions. The General
33 Assembly by a three-fifths vote of the members elected to each House, may appropriate from the Budget Reserve
34 Account such additional sums as may be necessary to ~~fund any unanticipated deficit in any given fiscal year or to~~
35 ~~provide funds required as a result of any revenue reduction enacted by the General Assembly.~~ address a severe
36 economic downturn or an emergency affecting the health, safety or welfare of the citizens of the State.

Clarifies when appropriations can be made from the BRA.