DEFAC Advisory Panel on Fiscal Controls and Budget Smoothing
HJR No. 8 Mandate


- Call upon outside expertise where valuable.

- By May 1st, 2018 issue an advisory report containing:
  - The history of Delaware’s existing fiscal controls
  - Analyze need for reasonable restrictions on the use of surpluses
  - Research the benefits of budget stabilization funds
  - Other matters as Advisory Panel deems appropriate

- Identify constitutional or legislative change required for implementation of Advisory Panel’s recommendations
Current Fiscal Controls

- The 98% Rule (FY 1979)
- Budget Reserve Account (Rainy Day Fund) (FY 1979)
- Debt Limitations (FY 1992)
Constitutional Fiscal Controls

- Established for 1979 – Title 29, Chapter 65 § 6533 (a)-(g), The Delaware Constitution Article VIII § 6 (b)-(d)

- The 98 Percent Test
  - “(b) No appropriation, supplemental appropriation or budget act shall cause the aggregate General Fund appropriations enacted for any given fiscal year to exceed 98 percent of the estimated General Fund revenue for such fiscal year from all sources, including estimated unencumbered funds remaining at the end of the previous fiscal year...”
  - “(c) ...any portion of the amount between 98 and 100 percent of the estimated General Fund revenue for any fiscal year as estimated in accordance with subsection (b) of this section may be appropriated in any given fiscal year in the event of emergencies involving the health, safety or welfare of the citizens of the State, such appropriations to be approved by 3/5 of the members elected to each House of the General Assembly.”
Constitutional Fiscal Controls

- The Budget Reserve Account

  “(d) ...Within 45 days after the end of any fiscal year, the excess of any unencumbered funds remaining from the said fiscal year shall be paid by the Secretary of Finance into the Budget Reserve Account; provided, however, that no such payment will be made which would increase the total of the Budget Reserve Account to more than 5 percent of only the estimated General Fund revenues as set by subsection (b) of this section...”

  “…The General Assembly by three-fifths vote of the members elected to each House may appropriate from the Budget Reserve Account such additional sums as may be necessary to fund any unanticipated deficit in any given fiscal year or to provide funds required as a result of any revenue reduction enacted by the General Assembly.”
Statutory Debt Limitations

- Established in 1992 – Title 29, Chapter 74 § 7422 (b)-(d)

- The 5% Rule –
  - “(b) The aggregate principal amount of tax supported obligations of the State which may be authorized by the State in any 1 fiscal year may not exceed 5% of the estimated net General Fund revenue for that fiscal year from all sources (not including unencumbered funds...”

- The 15% Rule –
  - “(c) No tax supported obligation of the State and no [TTF] debt obligation of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations (plus certain lease obligations described below) will exceed 15% of the estimated aggregate General Fund revenue from all sources (not including unencumbered funds...”

- Cumulative Cash Rule –
  - “(d) No obligation to which the State's full faith and credit is pledged may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the State's cumulative cash balances for the fiscal year following the fiscal year in which such obligation is incurred as estimated by the Secretary of Finance.”
Recent Revenue Volatility

Recent Delaware Revenue Volatility Growth

Fiscal Year

-10.0%
-5.0%
0.0%
5.0%
10.0%
15.0%
20.0%


Fiscal Notebook
Select Legislation Adjustments
Revenue Volatility: Business Cycles

80s Business Cycle

90s Business Cycle

00s Business Cycle

Current Business Cycle
Managing Revenue Volatility

• Revenue Portfolio Reform
  – Detailed analysis from recent council
  – Reduced volatility may also harm adequacy

• Fiscal Controls
  – Restrains to keep budget growth in-line with historical measures

• Budget Smoothing Fund
  – An additional option for keeping budget growth more linear in the face of volatility.
## DEFAC Advisory Council Revenue Recommendations

### Completed and Continuing

- ✔ Apportion more weight on the CIT’s Sales Factor
- ✔ Make periodic changes to the Corporate Franchise when prudent
- ✔ Repeal Delaware’s Estate Tax

### Outstanding

- ❑ Eliminate Itemized Deductions
- ❑ Conform Age-Based Tax Preferences
- ❑ Offset CIT cuts with GRT Increases
- ❑ Normalize revenue payment schedule
2015 DEFAC Advisory Council
Fiscal Control Options

• Definitions of “Extraordinary Revenues”
  – Legal settlements
  – Audits
  – GF growth v. a variety of long-run trends

• Options for Segregating Extraordinary Revenues
  – Deposit in current BRA and change withdrawal rules
  – Create a new Budget Smoothing Account
  – Limit “extraordinary revenue” expenditure:
    • Debt Reduction
    • Capital Infrastructure
    • Retirement Fund Contributions (Pension and/or OPEB)
Future Meetings and Topics

• Next Meeting Date:

• Potential Topics:
  – Revenue Volatility Measurement
  – Fiscal Controls
    • Definitions for Extraordinary Revenues
    • Definitions of adequacy in Service Provision
  – Smoothing Funds
    • Deposit Rules
    • Withdrawal Rules
    • Fund Size