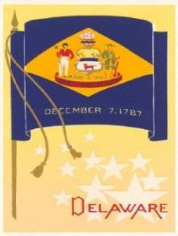
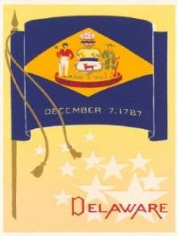

DEFAC Advisory Panel on Fiscal Controls and Budget Smoothing



HJR No. 8 Mandate

- Review May 2015 DEFAC Advisory Council on Revenue Report Recommendations
- 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



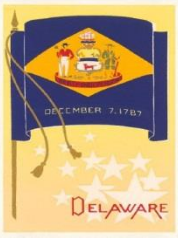
Current Fiscal Controls

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

The image shows the Delaware State Seal, which features a shield with a ship, a plow, and a sheaf of wheat, surrounded by a banner that reads "DECEMBER 7, 1787" and the word "DELAWARE" below it.

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.”



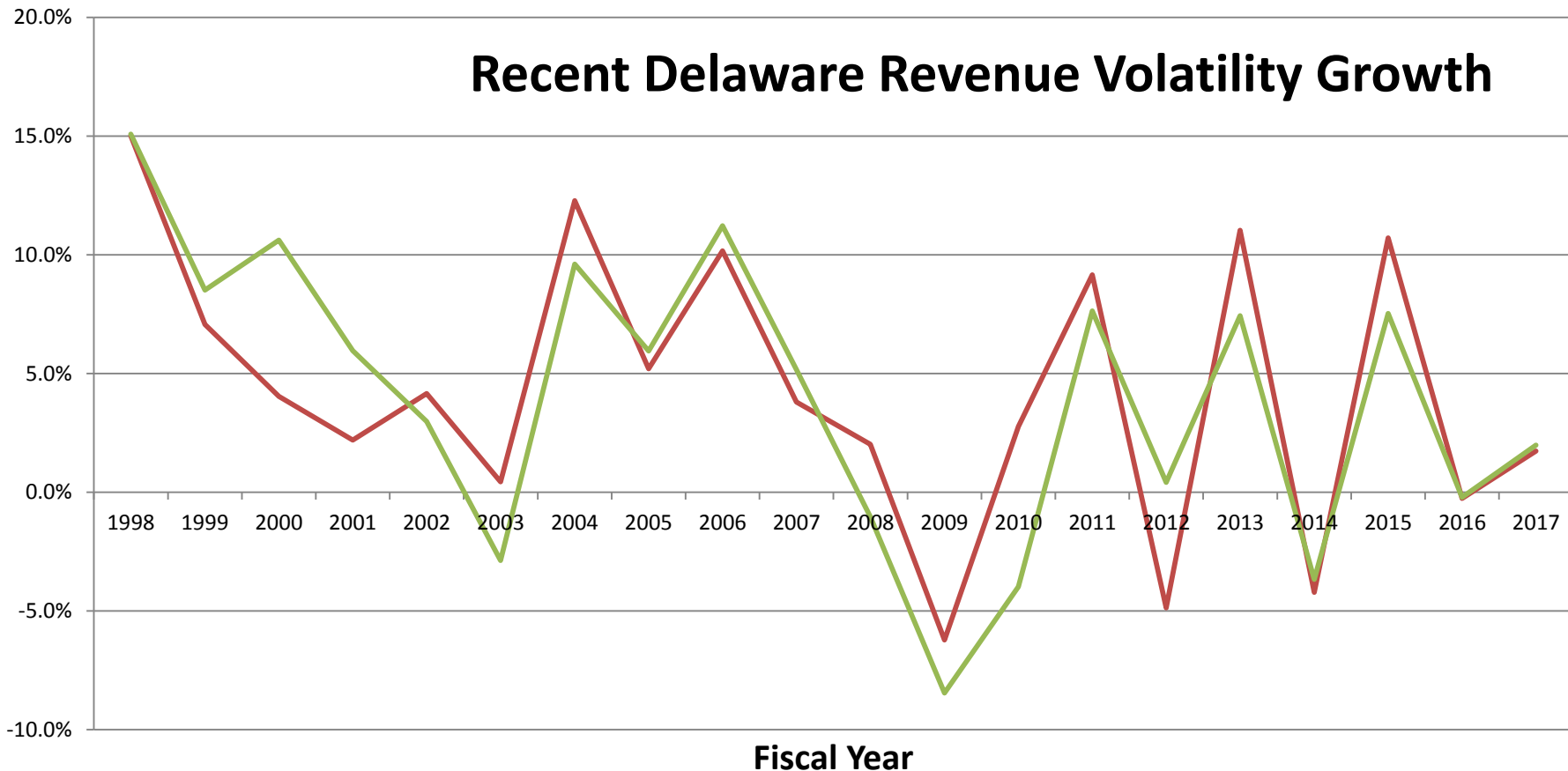
Statutory Debt Limitations

- 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

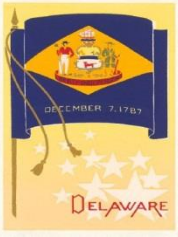


Recent Delaware Revenue Volatility Growth

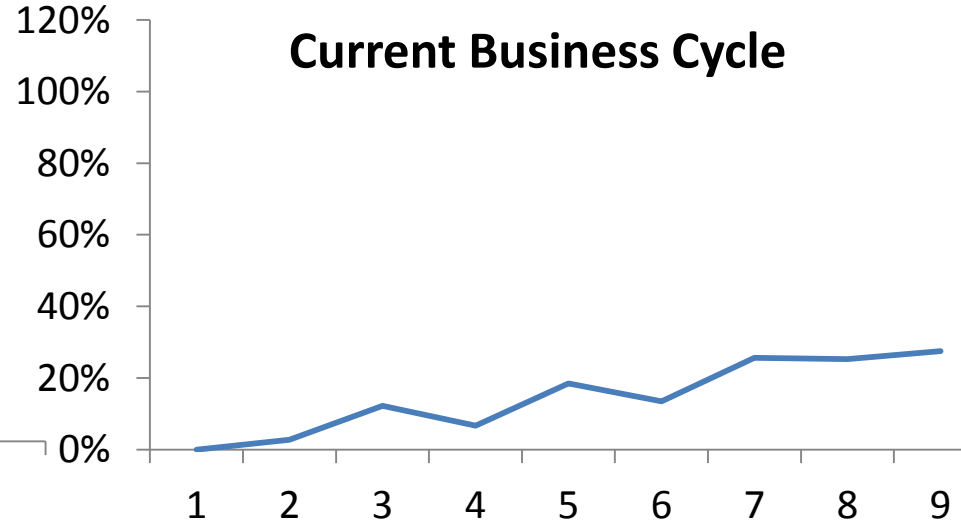
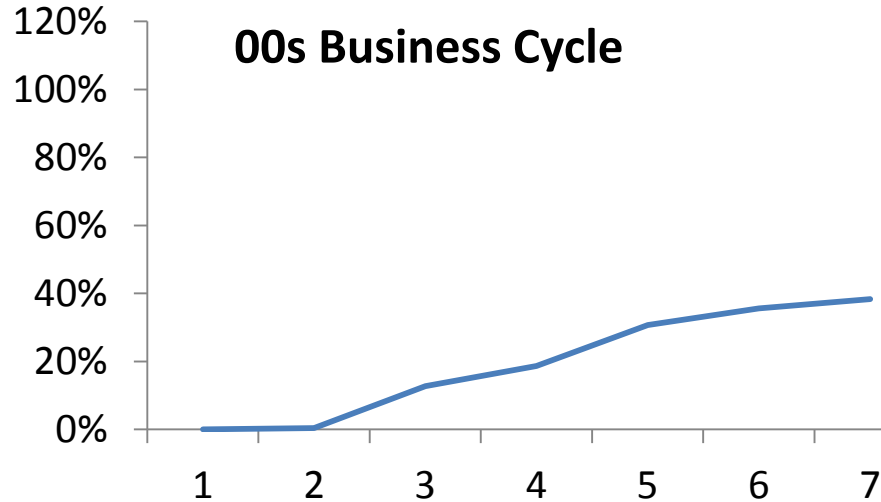
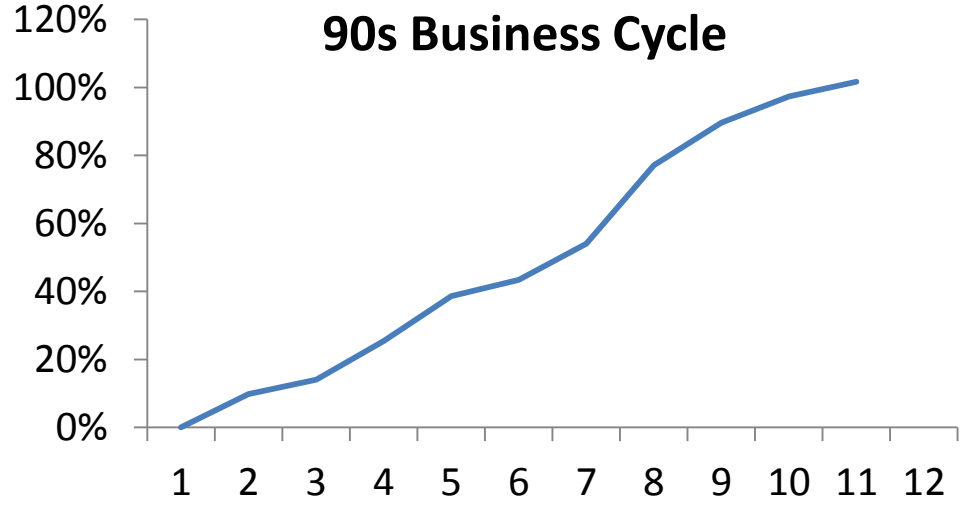
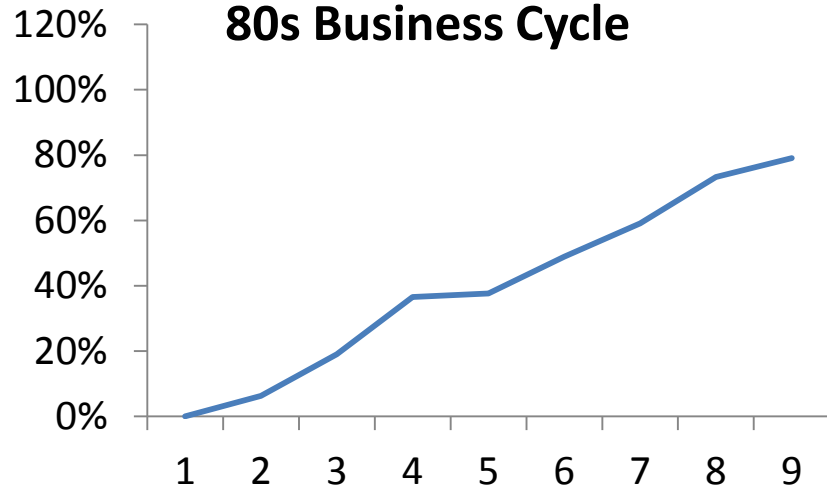


— Fiscal Notebook

— Select Legislation Adjustments



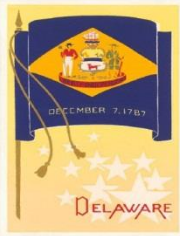
Revenue Volatility: Business Cycles





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.



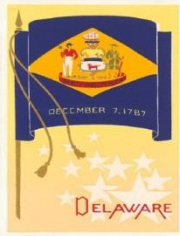
DEFAC Advisory Council Revenue Recommendations

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