DEFAC Advisory Panel on Fiscal Controls and Budget Smoothing

October 20, 2017
Charge of Commission

• Review the May 2015 Revenue Report and undertake further analysis as necessary

• Report on
  – the State’s adherence to the 98% appropriation limit
  – the use of the Budget Reserve Account
  – the need for reasonable restrictions on the use of budget surpluses, and
  – the benefits of a budget stabilization fund
  – other matters as deemed appropriate

• Identify Constitutional, statutory, and regulatory changes necessary
Recent Revenue Studies

- Unclaimed Property Task Force (2014)
Recent Expenditure Studies

- Expenditure Review Committee (2016)
- Government Efficiency and Accountability Review (GEAR) Board
- School District Consolidation
- Health Care Benchmark
Delaware’s Macro Economy

Budgetary “Means” and “Needs”
Natural tax bases in one chart

Index, CY1997 = 100

Calendar Years


Graph showing the following series:
- DE Personal Income
- U.S. Corporate Earnings
- S&P 500 Index
- DE Gross State Product
- DE Residential Housing Price Index
Natural tax bases are highly correlated despite volatility

Index, FY1997 = 100

Fiscal Years

DE Personal Income  S&P 500 Index  U.S Corporate Earnings  DE Residential Housing Price Index
Different Bases for Different Business Cycles

1990s
- CFT 10% growth
- PIT 4.5% growth

2000s
- CIT 26.3% growth
- RTT 12.3% growth
- PIT 5.2% growth

Current
- CIT 12.9% growth
- PIT 3.4% growth
State of Delaware
Needs vs. Revenues
2000-2016

Delaware Revenues
10-Year Rolling Growth

Revenues as published in Delaware Fiscal Notebook
State of Delaware
Needs vs. Revenues
2000-2016

Revenues (Trend)
10-Year Rolling Growth

Revenues as published in Delaware Fiscal Notebook
State of Delaware
Needs vs. Revenues
2000-2016

Trend (Revenues) vs. Needs
10-Year Rolling Growth

Sources: BEA, BLS, DOF
State of Delaware
Needs vs. Revenues
2000-2016

Trend (Revenues) vs. Needs
10-Year Rolling Growth

Sources: BEA, BLS, DOF
State of Delaware
Means Measures vs. Needs Measures
2000-2016

Means vs. Needs
10-Year Rolling Growth

Sources: BEA, BLS, DOF
Definitions of Source Data

- **Delaware Personal Income (BEA)** -
  - Wages, benefits, proprietor, rental, interest, dividends, transfers

- **S & P 500 Index (S&P)** -
  - Market capitalizations of 500 large common stock listed on the NYSE or NASDAQ

- **U.S. Corporate Earnings (BEA)** -
  - Profits before tax (PBT) and of two adjustments—the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj)

- **Delaware Gross State Product (BEA)** -
  - Value of final sales of goods in manufacturing, mining, retailer, and wholesale

- **Annual Residential Housing Price Index (FHFA)** -
  - Calibrated using appraisal values and sales prices for mortgages bought or guaranteed by Fannie Mae and Freddie Mac.
Terms

- **Consumer Price Index-Urban (CPI-U)** – Measure of inflation, represented here as a blend between the Philadelphia and Baltimore regions for a more representative Delaware price index. Data is available via the Bureau of Labor Statistics (BLS).

- **Population** – Estimate is provided via the Census for the State of Delaware annually.

- **S&L Deflator** – The State and Local Price Deflator (or Implicit Price Deflator) is a subset of goods that are more reflective of State and Local Government purchases. This is NOT regional nor Delaware specific, and is a blend across all 50 states. Readily available via the BEA.