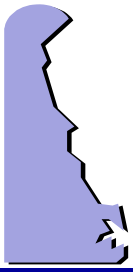


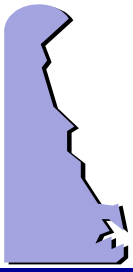
BUDGET SMOOTHING PROPOSAL

May 2, 2018



Bond Bill Cash

- Certain items are not appropriately funded through bonds:
 - Do not have a 20 year life or;
 - May not qualify for tax exempt financing
- Appropriated to non-state agency entity therefore triggering a supermajority vote requirement and not suitable for the operating budget

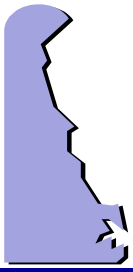


Bond Bill Cash Requirements

	FY 2019Rec	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
<i>Economic Development</i>									
<ul style="list-style-type: none"> • Strategic Fund • Research Grants • RDC 	\$26.9	\$22.4	\$17.5	\$18.2	\$34.2	\$30.7	\$36.2	\$38.7	\$35.8
<i>Environment</i>									
<ul style="list-style-type: none"> • Drinking Water • Clean Water • Shoreline Mgt 	13.9	8.9	10.2	8.1	7.8	10.3	6.4	10.8	6.6
<i>Local Law/Fire</i>	1.3	1.5	1.6	1.2	0.3	4.0	4.3	2.6	2.2
<i>Other</i>	10.5	0.4	-	0.3	0.4	8.0	-	1.5	-
TOTAL CASH	\$52.6	\$33.2	\$29.3	\$27.8	\$42.7	\$53.0	\$46.9	\$53.6	\$44.6

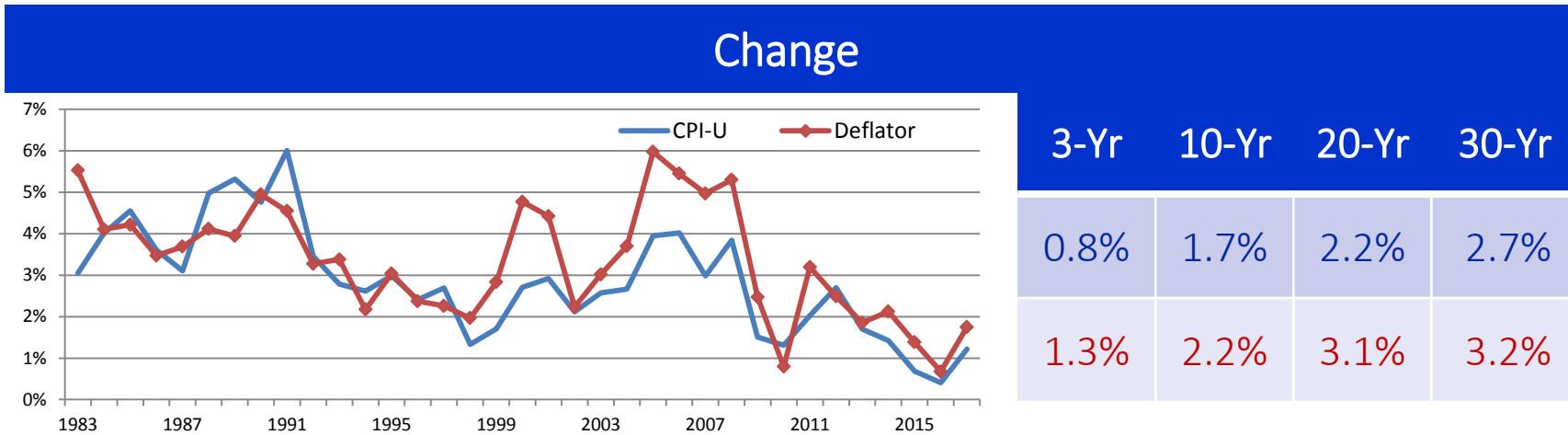
Average per year = \$42.6 million

Cash projects leveraged over \$80 million in matching funds in FY 18.



Comparison of CPI and State & Local Gov't Implicit Price Deflator

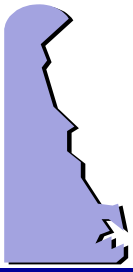
Composition		
Expenditure	CPI	Deflator
Goods	40.9%	13.4%
Services	26.4%	90.6%
Housing / Consumption of Capital	32.7%	17.1%
Other	N/A	-21.2%





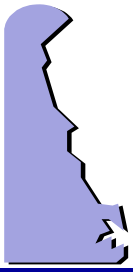
Budget Stabilization Fund and Budget Benchmark

- Rainy Day Fund merged into new Budget Stabilization Fund (BSF), capped at 10% of gross General Fund revenues
- No change to 98% appropriation limit
- Create budget benchmark based on economic and demographic measures (income, prices, population)
- Benchmark limits growth of operating budget plus grants-in-aid [with adjustment for operating items in cash to the bond bill]



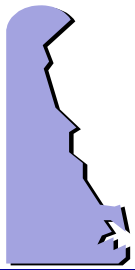
BSF Deposit and Withdrawal Rules

- If 98% rule generates appropriation limit above the benchmark, excess is deemed “extraordinary funds”
 - Half must go to BSF until it reaches 10% cap, at which point it is available for any use
 - Half is always and only available for one-times
- Withdrawals are allowed if
 - Operating deficit is greater than 2% set-aside, or
 - If growth in 98% limit falls short of benchmark limit growth



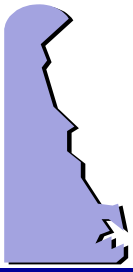
Withdrawal Rule Limitations

- Withdrawals must be the lesser of
 - Half of the relevant shortfall, or
 - Half of the balance in the fund
- BSF has a floor of 3% of gross general fund revenues



Benchmark in Action

Deposit		WD—Operating Deficit		WD—Slow Revenues	
Prior Operating + GIA + 1%	100	100% Approp. Limit	100	Prior Operating + GIA + 1%	100
98% Appropriations Limit	105	98% Approp. Limit	98	98% Appropriations Limit	103
Benchmark Approp. Limit	103	Operating Balance	(4)	Benchmark Approp. Limit	105
Extraordinary Revenues	2	Excess Over 2% Set-Aside	2	Withdrawal*	1
BSF Deposit	1	Withdrawal*	1		
One-Time Expenditures	1	* Withdrawals of this amount require a BSF balance of at least 2			



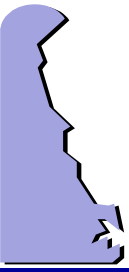
Budget Measures Requiring 3/5 Vote

Current Practice

- To appropriate funds above the 98% rule
- To appropriate from the Budget Reserve Account

Proposed Model

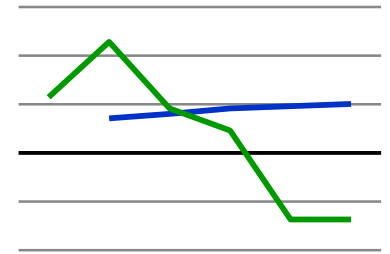
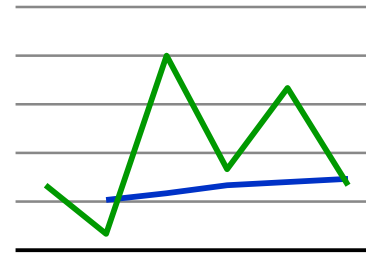
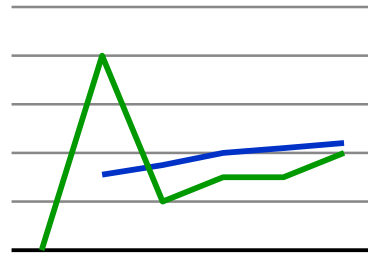
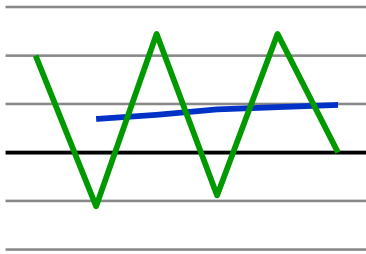
- To appropriate funds above the 98% rule (aside from Budget Stabilization Fund withdrawals)
- To reduce the required deposit of extraordinary funds to the BSF or redirect to one-time expenditures
- To withdraw more from the BSF than allowed by rule
- To adopt or change economic measure(s) used for budget benchmark

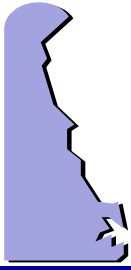


Economic Benchmark and Revenue Assumptions

	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Benchmark	—	3.1%	3.5%	4.0%	4.2%	4.4%
Whipsaw (<i>FY 11</i>)	9%	-5%	11%	-4%	11%	0%
Current (<i>FY 17</i>)	0%	8%	2%	3%	3%	4%
Boom (<i>FY 02</i>)	4%	1%	12%	5%	10%	4%
Crisis (<i>FY 05</i>)	5%	10%	4%	2%	-6%	-6%

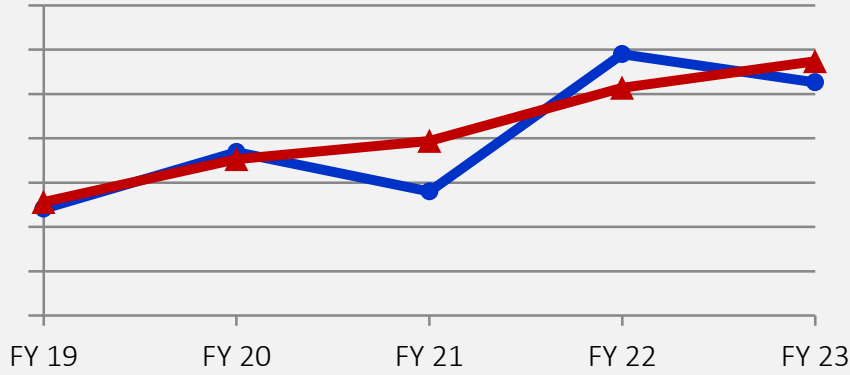
Whipsaw	Current	Boom	Crisis
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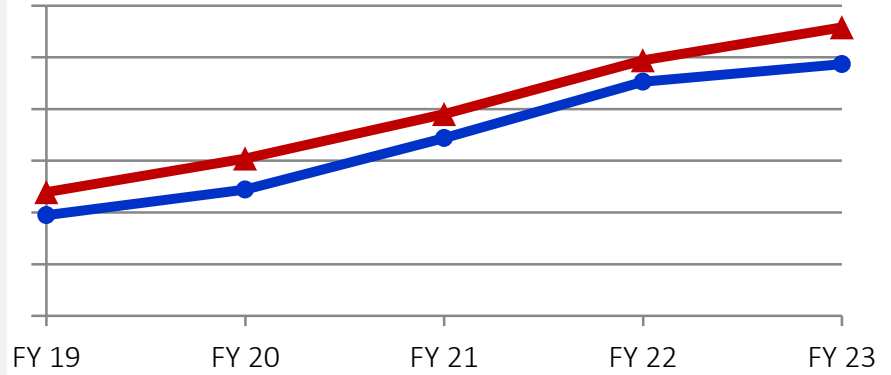


Smooother Operating Budgets

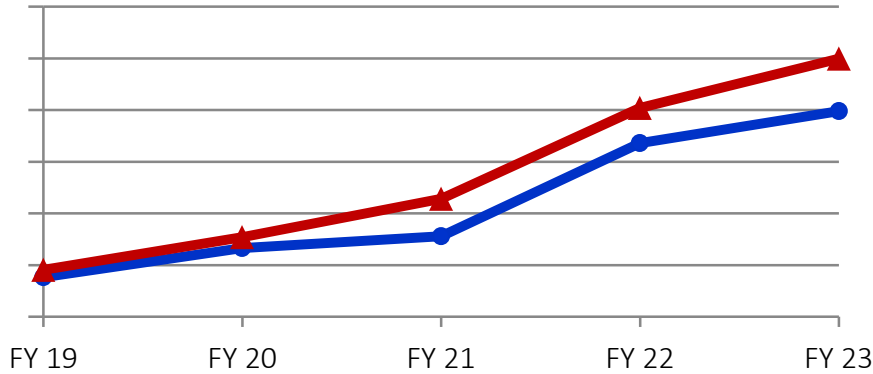
Whipsaw



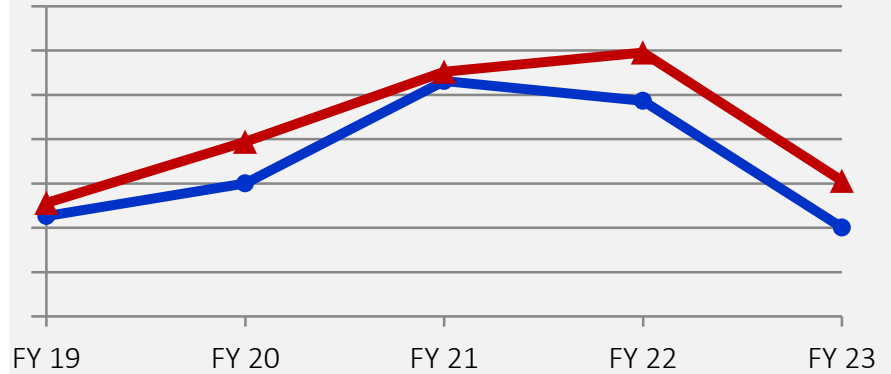
Current



Boom

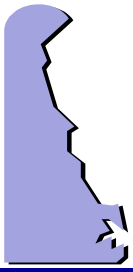


Crisis



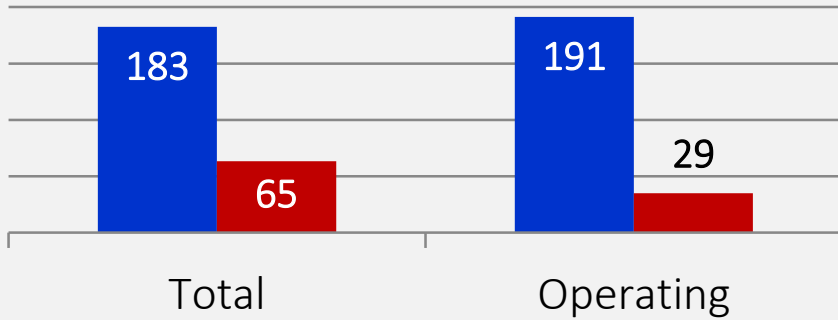
Status Quo

Proposed Model

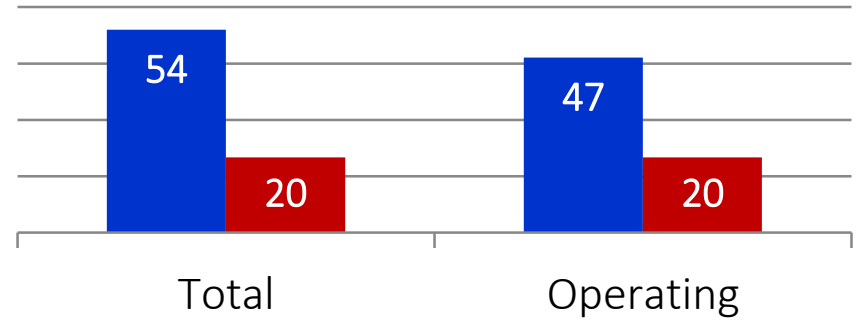


Lower Volatility

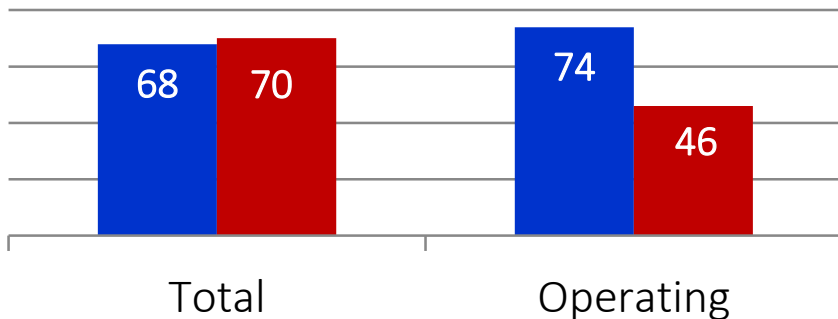
Whipsaw



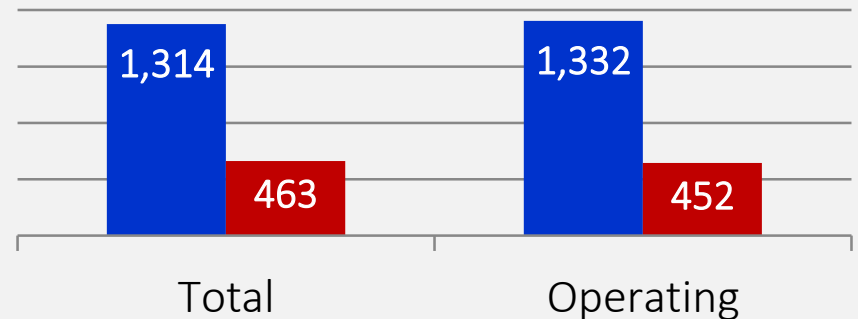
Current



Boom

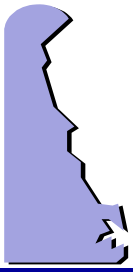


Crisis



Status Quo

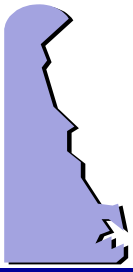
Proposed Model



Total Spending Will Change

(\$ in millions)

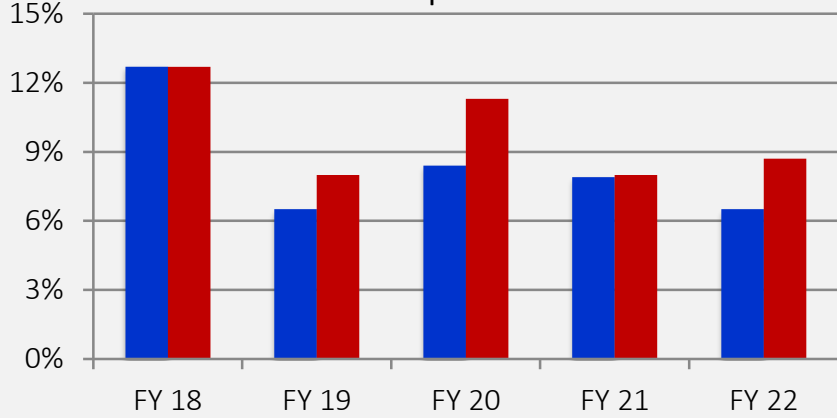
Budget Effects			
Case	Average Status Quo	Average Proposed Model	Percent Reduction
Whipsaw	4,579	4,577	-0.01%
Current	4,502	4,508	0.01%
Boom	4,869	4,815	-1.09%
Crisis	4,606	4,616	0.22%



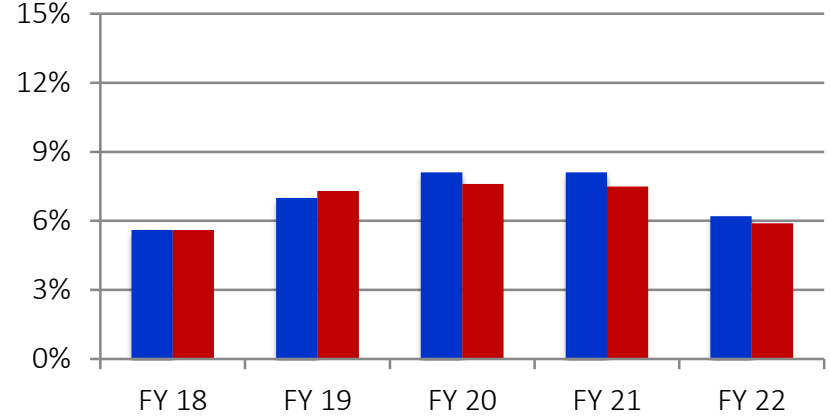
Reserves Are Generally Higher

(% of gross GF revenue)

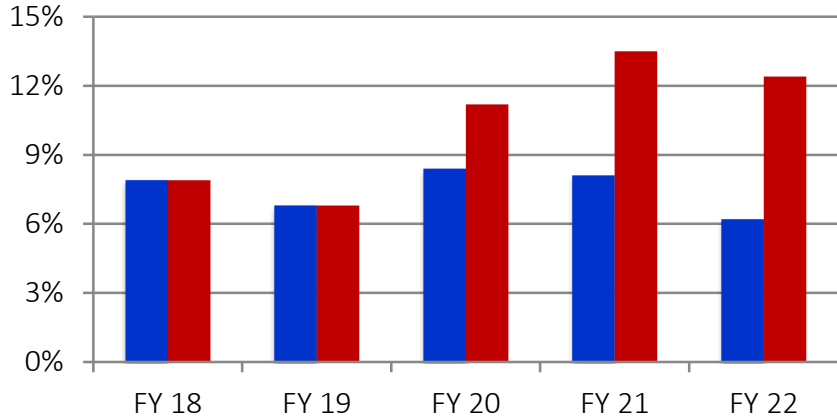
Whipsaw



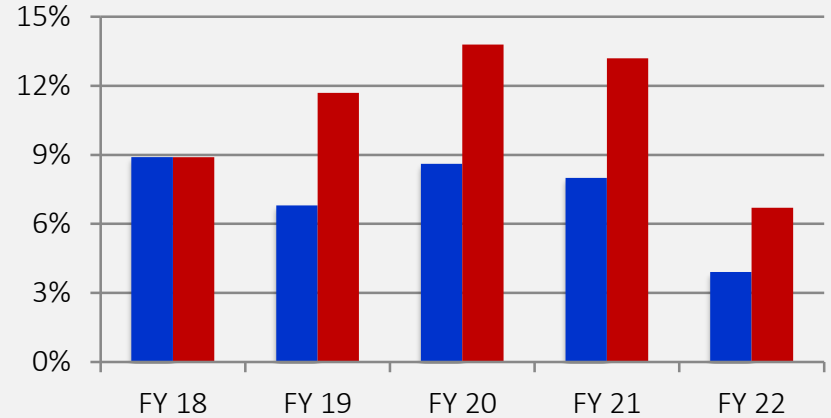
Current



Boom

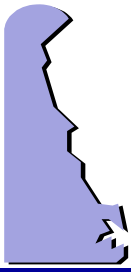


Crisis



Status Quo

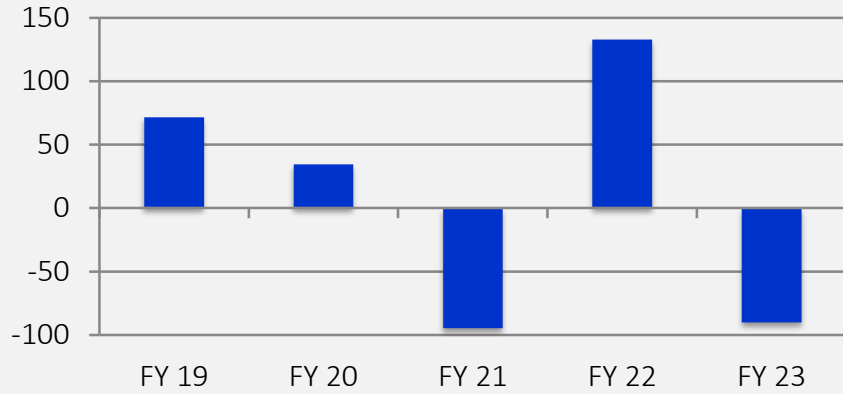
Proposed Model



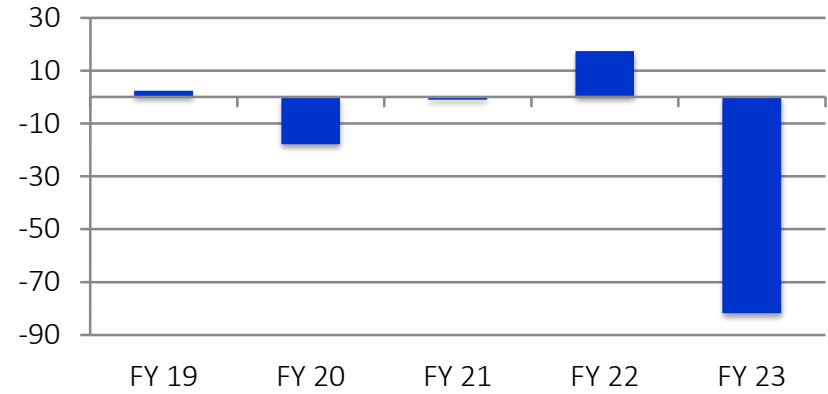
Reserves are Used

(\$ in millions)

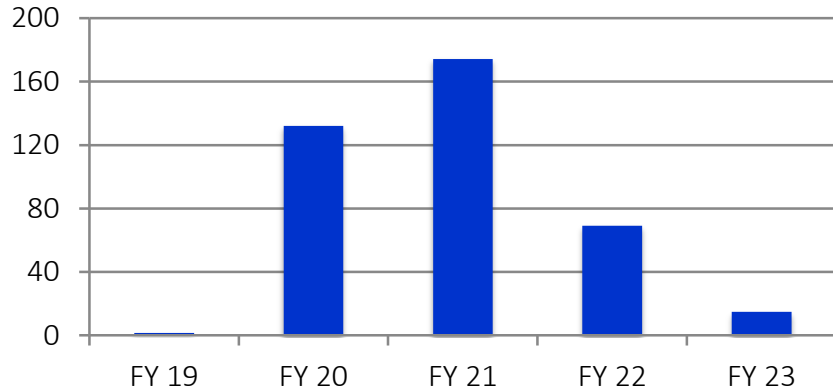
Whipsaw



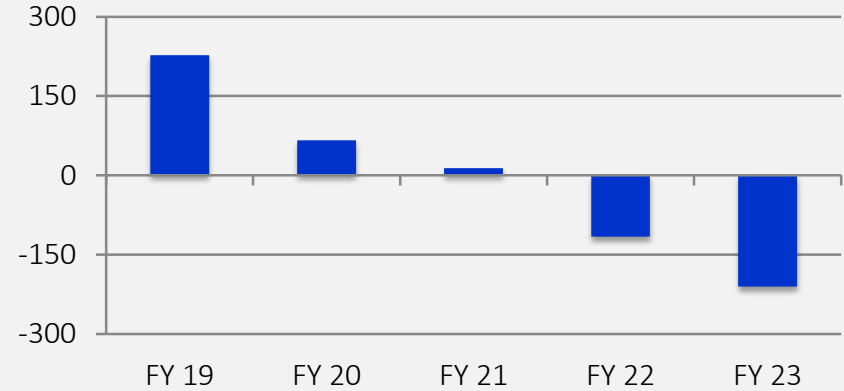
Current



Boom



Crisis



Positive values are deposits to the BSF, negative values are withdrawals



Revenue Reforms within both Illustrations

- The Illustrations to follow represent a “**Rate-Focused**” baseline and a “**Equity-Focused**” baseline
- Both illustrations include:
 - Age-based preferences replaced with \$22,500 (joint) / \$17,500 (single) retirement income exemption
 - Itemized deductions repealed
 - Means-Test of age-based preferences, phased out along the same ranges of \$110K - \$160K (joint) / \$60K - \$110K (single)
 - Eligibility age of 65, taxpayers 60 and older grandfathered in
 - Adjustments to prior estimates to consider the effects of federal tax reform



Differences between Illustrations

Rate Focus

- Means-Test on Delaware AGI plus Retirement Income
- No change to CIT payment patterns
- Rate cuts more than offset package in FY 1
- Full package including age-based changes start in TY 1

Equity Focus

- Means-Test also includes Taxable SS Income
- Adjust CIT payment patterns at a cost
- CIT change and rate cuts largely offset itemization repeal
- Age-based changes start in TY 2

Rate Tables

Income Over	Current Rate	Rate Focus	Equity Focus
\$0	0.00%	0.00%	0.00%
\$2,000	2.20%	2.10%	2.20%
\$5,000	3.90%	3.70%	3.80%
\$10,000	4.80%	4.60%	4.70%
\$20,000	5.20%	5.00%	5.10%
\$25,000	5.55%	5.20%	5.50%
\$60,000	6.60%	5.98%	6.10%
\$150,000	6.60%	5.98%	6.40%



Illustration Outcomes

Fiscal Impacts (\$ in millions)				
Illustration	FY19	FY 20	FY 21	FY 22
Rate Focus	-5.8	40.6	56.4	63.9
Equity Focus	5.5	104.1	114.6	130.3

Distributional Impact					Descriptive Reference Points			
Quintile	Average TY 20 Change		Share of Change		Quintile	Current TY 20 Liability	TY 20 Average Delaware Taxable Income	TY 20 Average Observed Income ¹
	Rate	Equity	Rate	Equity				
1	\$(5)	\$(1)	-1.7%	-0.1%	1	\$105	\$7,311	\$11,720
2	\$(6)	\$22	-1.7%	2.0%	2	\$619	\$24,150	\$33,534
3	\$54	\$129	16.3%	11.9%	3	\$1,408	\$39,472	\$59,971
4	\$196	\$327	59.8%	30.2%	4	\$2,649	\$70,199	\$99,724
5	\$90	\$605	27.3%	55.9%	5	\$9,468	\$148,229 ²	\$188,138 ²

¹ "Observed income" is all taxable and nontaxable income reported on Form 1040

² Median shown here to remove effects of outliers and non-residents with limited apportionment to Delaware