

BUDGET SMOOTHING

Executive Order

“Over the past several decades, we’ve seen Delaware’s budget go through good times and bad times. As every Delaware family knows, you’re supposed to save some of your money during the good times so you can make it through when money gets tight. This executive order holds state government to the same standard. It’ll even things out so when a bad economy comes along, we won’t see massive cuts in services or dramatic tax hikes. This is the responsible thing to do for taxpayers who rightly expect us to manage their money wisely.” – Governor John Carney

Recognizing a Budget Stabilization Fund for responsible budget planning purposes

Budget Smoothing Process

September

- ▶ OMB Director reports excess year end revenues.

December and May

- ▶ DEFAC calculates an advisory Benchmark Index and Benchmark Appropriation.
- ▶ DEFAC reports “extraordinary revenues” or “shortfalls” compared to the 98% appropriation limit.

January and June

- ▶ Governor’s Recommended Budget and the State’s Final Budget benefit from using DEFAC’s advisory findings as guidance in building a long-term sustainable financial package.

Recognizing a Budget Stabilization Fund will

- ✓ Help to provide fiscal stability
- ✓ Preserve core government programs in bad times

Background

- ▶ Governor Carney believes the State must address **our structural spending and revenue problems so we can get back to making investments in our schools, our communities, and our economy.**
- ▶ In response to the fiscal challenges of the past decade, **Governor Carney signed HJR 8**, creating an Advisory Panel on Potential Fiscal Controls and Budget Smoothing Mechanisms.
- ▶ The FY19 Budget and Capital Improvement Acts demonstrated the Governor and General Assembly’s **commitment to responsible budget growth while setting aside extraordinary revenues for one-time expenditures and reserves.**
- ▶ Delaware must address the **long-term structural spending and revenue reforms** needed to avoid the constant cycle of whipsaw budget growth and cuts.
- ▶ Governor Carney signed an Executive Order to recognize a **Budget Stabilization Fund for budget planning purposes** in an effort **to help ensure the State takes a longer term and more sustainable view of the state’s finances.**

Executive Order

- ▶ Creates a **benchmark budget mechanism** that builds on our current budget structure while promoting **less volatility and greater stability** in funding critical state programs.
- ▶ Directs OMB, starting with the FY20 budget process, to recognize a **Budget Stabilization Fund (BSF)** for reporting and planning purposes.
 - The initial planning amount in the BSF will include funds not appropriated by the General Assembly for FY19 (\$47M) and will increase or decrease depending on revenue forecasts for FY19.
- ▶ OMB will make **recommendations to the Governor** on amounts to be allocated to and/or withdrawn from the Fund when preparing a proposed budget for FY20.
- ▶ Directs the **Secretary of Finance to report on the BSF balance in monthly financial reports** submitted to the Governor and General Assembly starting in September.
- ▶ Directs DEFAC to **calculate an advisory “Benchmark Appropriation”** for budget sustainability using an **advisory “Benchmark Index” growth rate.**
- ▶ Requires **DEFAC to offer advisory information** to the Governor and General Assembly, each December and May, **on resources that would be available to be deposited to the BSF or for non-recurring expenditures or for reductions in long-term liabilities.**

How Budget Smoothing Works

- ▶ The appropriation limit will continue to be calculated based on the 98% rule (the **“98% limit”**).
- ▶ An advisory **Benchmark Index** comprised of relevant **indicators of growth in the state’s economy** will be calculated.
- ▶ Using an advisory Benchmark Index, DEFAC will calculate and provide Governor Carney with an advisory **Benchmark Appropriation.**
- ▶ The **Budget Stabilization Fund (BSF) is for planning purposes only** and the General Assembly may appropriate its balance at any time for any reason.
- ▶ The State will continue to make deposits to the Rainy Day Fund.

Benefits

- ▶ Provides **fiscal stability** in funding critical programs.
- ▶ **Seeks to build larger reserves during good times** so the Governor and General Assembly have available reserves to use during down times.
- ▶ Helps to **preserve core programs** in bad times.