# A Bipartisan Approach to Ailing Budget

DELAWARE GENERAL FUND REVENUES in the current fiscal year are projected to rise more than $330 million — a sharp reversal from when Governor Carney took office and the State was forecasting a nearly $400 million budget deficit.

This cycle of feast or famine is a familiar one. Delaware's budget has been on a yearly rollercoaster since the Great Recession and our budgets experienced similar multi-year peaks and valleys in the prior decades. In good years, the State tends to use up all of the funds available through a combination of annual spending increases and tax cuts. And in bad years, policymakers are left with little choice but enacting painful spending cuts and tax increases.

Last year was no different as the State – exercising a tradition of fiscal discipline that has earned Delaware a coveted AAA bond rating – enacted a no-growth budget and $210 million of increased revenues from corporate franchise, realty transfer, cigarette and alcohol taxes. Since then, the State has experienced additional revenue growth – some of it from base growth in incorporations and personal income taxes but mostly from one-time increases due to unclaimed property and federal tax law changes.

Naturally, it's very tempting to want to fulfill pent-up demand for new services by spending this surplus – until realizing that revenues are currently forecast to increase less than 1% next year. There is a better way.

In response to the fiscal challenges of the past decade, in 2017 the General Assembly enacted and Governor Carney signed HJR 8 creating an Advisory Panel on Potential Fiscal Controls and Budget Smoothing Mechanisms. The Panel was asked to study the State's historic adherence to its fiscal controls and the benefits of storing excess funds during periods of surplus to cover deficits during periods of revenue shortfalls.

The bipartisan Panel convened for nine months under the leadership of DEFAC Chair Mike Houghton and made three major recommendations. First, the State should redefine the current appropriation method while building on its current fiscal controls. Specifically, the Panel recommended creating a budget benchmark to restrain state spending growth to a level of sustainable economic growth – in the range of 3% to 4% growth based on current economic indicators. Half of any excess revenues beyond the budget benchmark would be available for one-time non-recurring expenditures.

Second, the State should repurpose the current "rainy day fund" into a new Budget Stabilization Fund. The other half of any excess revenues would be deposited into the Budget Stabilization Fund capped at 10% of state revenues. During periods when available revenues fall short of the budget benchmark, up to half of the balance of the Budget Stabilization Fund in any single year would be available to the State's budget writers to fund half of any such shortfall.

Tested against a variety of different types of business cycles, such a system would result in far smoother and more predictable budget growth, the building of meaningful reserves, and the use of these reserves to smooth spending during times of deficits. This contrasts sharply with the State's current system where budget growth is volatile and unpredictable and the State's rainy day fund is virtually unusable – it has actually never been used in forty years.

Third, the Panel endorsed the linkage of any structural spending reforms to the enactment of structural reforms to the Personal Income Tax (PIT). Specifically, the Panel recommended broadening the tax base so PIT revenues will become less volatile and grow at or near the same rate of growth as Delaware personal income.

This package of reforms would require a Constitutional amendment to be enacted by the next two General Assemblies and legislation reforming the PIT. Our elected leaders recognize the necessity of addressing our long-term fiscal challenges. Governor Carney's recommended budget for fiscal year 2019 unveiled this past January limited base spending growth to a sustainable level and deployed one-time revenues toward non-recurring expenditures, investments and reserves.

This May, the General Assembly's Joint Finance Committee responded in kind by also voting to restrain base budget growth, responsibly invest one-time revenues and set aside surplus revenues. So as we enter June, Governor Carney looks forward to working with the entire General Assembly to continue to address this challenge. Working together we can demonstrate a mutual commitment to being responsible stewards of taxpayer dollars – enacting a spending plan and working toward long-term reforms that will better match State spending with our ability to pay for it. ■

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