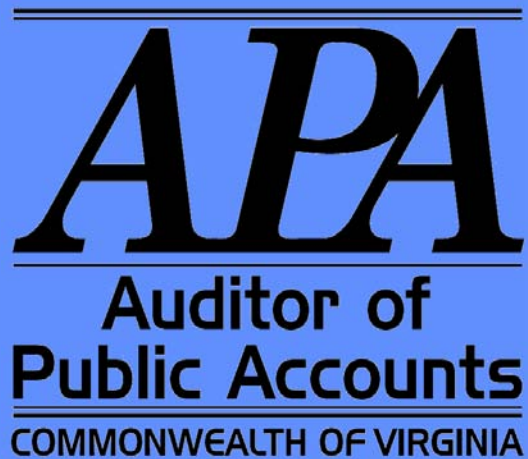


**REVENUE STABILIZATION FUND**

**CALCULATIONS  
FOR THE YEAR ENDED  
JUNE 30, 2009**





# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 29, 2009

Dear General Assembly Member:

## **REVENUE STABILIZATION FUND**

This Office is providing a report of the required calculations for the Revenue Stabilization Fund. Appendix A provides historical information concerning the establishment of the Revenue Stabilization Fund and the requirements surrounding it.

## **CALCULATION OF MAXIMUM FUND ALLOWED**

<u>Years</u>	<u>Tax Revenues (In Thousands)</u>
2007	\$13,941,647
2008	\$14,227,165
2009	\$13,246,119
Average for three years	\$13,804,977
Maximum fund allowed (10% of average)	\$ 1,380,498

## **CALCULATION OF CONSTITUTIONAL DEPOSIT**

As a result of changes in the tax structure enacted by the 2004 General Assembly, there have been both increases and decreases in the taxes used to perform the calculation of the mandatory deposit into the Revenue Stabilization Fund. The Virginia Constitution permits the exclusion, in whole or in part, of the growth in tax revenues resulting from increases in tax rates or the repeal of exemptions from the computation of the mandatory deposit for a period up to six years after the effective year of the change. Therefore, beginning with fiscal year 2005 and continuing through fiscal year 2010, we will perform two calculations: one including the effect of the tax increases and exemption repeals and the other excluding the effect of the tax increases and exemption repeals. For fiscal year 2009, neither calculation method requires a deposit to the fund.

### **Calculation: Including Tax Increases and Exemption Repeals**

Including the effect of tax increases and exemption repeals, certified tax revenues decreased by 6.90 percent between fiscal years 2008 and 2009, and the average revenue growth for the preceding six years was

7.21 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue decline and the average growth is a *negative* 14.11 percent.

Since the difference between last year's revenue decline and the average growth is negative, there is no requirement to make a deposit to the fund. Exhibit 1 provides the certified tax revenue amounts used in the calculation, which includes the effect of the tax increases and exemption repeals.

Calculation: Excluding Tax Increases and Exemption Repeals

Excluding the effect of tax increases and exemption repeals, certified tax revenues decreased by 7.08 percent between fiscal years 2008 and 2009, and the average growth for the preceding six years was 6.40 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue decline and the average growth is a *negative* 13.48 percent.

Since the difference between last year's revenue decline and the average growth is negative, there is no requirement to make a deposit to the fund. Exhibit 1 provides the certified tax revenue amounts used in the calculation, which excludes the effect of the tax increases and exemption repeals.

To perform this calculation, we used estimates provided by the Department of Taxation (Taxation) for the effect of tax increases and exemption repeals on certified tax revenues for fiscal year 2009. We reviewed Taxation's methodology and data to arrive at the estimated amounts to ensure the amounts were reasonable. Taxation could not establish a methodology to estimate the additional tax revenue associated with the elimination of the common carrier sales and use tax exemption; therefore, we could not eliminate the effect of this tax change from the calculation. Below is Taxation's estimate of the effect of tax increases and exemption repeals.

**FISCAL YEAR 2009 EFFECT OF TAX INCREASES AND EXEMPTION REPEALS  
(IN THOUSANDS)**

<u>Tax Source</u>	<u>Tax Category Affected</u>	<u>Amount</u>
State sales and use tax rate	State sales and use	\$ 426,775*
Income adjusted age deduction	Individual and fiduciary income	66,500
Public service corporation exemption	State sales and use	42,100
Delaware holding companies deduction	Corporate income	40,400
Pass-through entities tax base	Individual and fiduciary income	16,600

\* Amount based on actual collections as recorded in the Commonwealth Accounting and Reporting System.

Fiscal Year 2009 Activity

In April 2009, in accordance with Item 265 D.2 of Chapter 781 of the 2009 Acts of Assembly, there was a withdrawal of \$490,000,000 from the Fund. In June 2009, in accordance with Item 265 A of Chapter 781 of the 2009 Acts of Assembly, there was a deposit of \$21,320,527 to the Revenue Stabilization Fund. Exhibit 2 provides the funding progress of the Fund through June 30, 2009.

## CALCULATION OF STATUTORY DEPOSIT

Section 2.2-1829 of the Code of Virginia, as discussed in Appendix A, requires the Governor to include an additional deposit to the Revenue Stabilization Fund in his budget recommendations if certain conditions occur. Under both calculation methodologies, as shown in Exhibit 3, the growth of certified tax revenues does not meet any of the required conditions. Therefore, the Governor does not need to include an additional deposit in his budget recommendations.

## CALCULATION OF WITHDRAWAL

Article X, Section 8 of the Virginia Constitution, as discussed in Appendix A, establishes the requirements for making a withdrawal from the Revenue Stabilization Fund. On September 8, 2009, the Governor officially indicated that he plans to request that the General Assembly consider a \$283 million withdrawal from the Fund for the fiscal year ended June 30, 2010.

To assist the General Assembly in its consideration of this request, we are providing the following information. A withdrawal from the Fund can occur only if general fund revenues appropriated exceed the revised general fund forecast by more than two percent of certified tax revenues collected in the most recently ended fiscal year. In addition, a withdrawal from the Fund can compensate for no more than one-half of the difference between the total general fund revenues appropriated and a revised general fund revenue forecast during a subsequent regular or special legislative session. Finally, a withdrawal from the Fund cannot exceed more than one-half the balance of the Fund.

In August 2009, the Governor released revised estimated revenue collections for fiscal year 2010. The general fund revenues appropriated in Chapter 781 exceed the revised general fund forecast by \$1,348,219,000, which exceeds the two percent threshold of \$264,922,000. One half of the calculated difference between the general fund revenues appropriated and the revised general fund forecast for fiscal year 2010 of \$674,110,000 is greater than one half of the balance of the Fund at June 30, 2009. Therefore, the Governor could request a withdrawal of up to \$287,532,000, which is one half the balance of the Fund as of June 30, 2009. This amount is subject to change based on the general fund forecast the Governor includes in his official budget recommendations for the remainder of fiscal year 2010.

All actions withdrawing funds from Revenue Stabilization Fund are subject to review and approval by the General Assembly. Exhibit 4 contains detailed information showing the calculations of the amounts above.

Should you have any questions concerning this information, please contact me.



AUDITOR OF PUBLIC ACCOUNTS

Enclosure

SAH:alh

**Exhibit 1**

**CALCULATIONS USED FOR THE REVENUE STABILIZATION FUND  
INCLUDING THE EFFECT OF TAX INCREASES AND EXEMPTION REPEALS  
(IN THOUSANDS)**

Tax Revenue Required for Computation

Years	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals	Average Annual Percentage Change	Preceding Six Year Annual Average
2003	6,775,799	343,319	2,335,959	9,455,077	0.26%	6.77%
2004	7,430,870	434,493	2,582,797	10,448,160	10.50%	5.36%
2005	8,352,488	616,690	3,067,521	12,036,699	15.20%	5.22%
2006	9,264,985	867,116	3,029,949	13,162,050	9.35%	6.05%
2007	9,787,786	879,575	3,274,286	13,941,647	5.92%	5.62%
2008	10,117,132	807,852	3,302,181	14,227,165	2.05%	6.14%
2009	9,481,256	648,032	3,116,831	13,246,119	(6.90)%	7.21%

**CALCULATIONS USED FOR THE REVENUE STABILIZATION FUND  
EXCLUDING THE EFFECT OF TAX INCREASES AND EXEMPTION REPEALS  
(IN THOUSANDS)**

Tax Revenue Required for Computation

Years	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals	Average Annual Percentage Change	Preceding Six Year Annual Average
2003	6,775,799	343,319	2,335,959	9,455,077	0.26%	6.77%
2004	7,430,870	434,493	2,582,797	10,448,160	10.50%	5.36%
2005	8,303,557	584,108	2,742,495	11,630,160	11.31%	5.22%
2006	9,201,966	842,116	2,558,328	12,602,410	8.36%	5.40%
2007	9,716,486	854,575	2,778,779	13,349,840	5.93%	4.80%
2008	10,030,532	777,352	2,810,274	13,618,158	2.01%	5.33%
2009	9,398,156	607,633	2,647,955	12,653,744	(7.08)%	6.40%

**Exhibit 2**

**SCHEDULE OF FUNDING PROGRESS**

	Amounts (In Thousands)
Balance at June 30, 2008	\$1,014,870
June 2009 mandatory deposit	21,321
April 2009 withdrawal	(490,000)
Interest earned during fiscal year 2009	<u>28,873</u>
Total in fund at June 30, 2009*	<u>\$ 575,064</u>
Percentage of maximum fund allowed	42%

\*A fiscal year 2010 deposit is not required based on fiscal year 2008 calculations, and a fiscal year 2011 deposit is not required based on fiscal year 2009 calculations (both including and excluding the effect of tax increases and exemption repeals).

**Exhibit 3**

**CALCULATIONS FOR STATUTORY DEPOSIT**

(As required by Section 2.2-1829 of the Code Of Virginia)

	<u>Excluding Effect of Tax Increases and Exemption Repeals</u>	<u>Including Effect of Tax Increases and Exemption Repeals</u>
Growth of certified tax revenues collected in most recently ended fiscal year	(7.08)%	(6.90)%
Average revenue growth for the preceding six years multiplied by 1.5	9.59%	10.82%
Increase of estimated general fund revenues for the fiscal year in which the deposit is to be made over general fund revenues for the immediately preceding fiscal year*	(1.65)%	(1.65)%

See the Statutory Deposit Section in Appendix A for conditions triggering a deposit.

\*Calculated based on revised general fund revenue estimate released by the Governor in August 2009.

**Exhibit 4**

**CALCULATIONS FOR WITHDRAWALS**

Calculation of 2 Percent Threshold

	<u>Threshold Amounts (in thousands)</u>
Certified tax revenues collected in most recently ended fiscal year (2009)	\$13,246,119
2 percent of certified tax revenues (threshold established by Virginia Constitution)	\$ 264,922

Calculation of Total Revised General Fund Forecast

	<u>Revised Forecast Amounts (in thousands)</u>
General fund revenue estimate (per August 2009 forecast)	\$14,079,400
General fund transfers (per August 2009 forecast)	415,300
General fund balance forward*	<u>1,113</u>
Total revised general fund forecast	<u>\$14,495,813</u>

\* Provided by the Office of the Secretary of Finance on September 9, 2009.

Calculation of Variance

	<u>Variance Amounts (in thousands)</u>
General fund revenues appropriated (per Chapter 781)	\$15,844,032
Revised general fund forecast	<u>14,495,813</u>
Calculated variance	<u>\$ 1,348,219</u>
One half of calculated variance	<u>\$ 674,110</u>

Calculation of One Half the Balance of the Fund

	<u>Balance Amounts (in thousands)</u>
Revenue Stabilization Fund Balance at June 30, 2009	\$575,064
50 percent of the balance of the Fund	\$287,532



## **APPENDIX A HISTORICAL INFORMATION**

### Mandatory Deposit

Article X, Section 8 of the Virginia Constitution and the enabling legislation established the Revenue Stabilization Fund, and require this Office to report to the General Assembly the following:

1. certified tax revenues for the calculation of the Revenue Stabilization Fund;
2. the maximum size allowed of the Revenue Stabilization Fund; and
3. the amount of the mandatory deposit to the fund.

The amount in the Revenue Stabilization Fund is not to exceed 10 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by our Office for the three fiscal years immediately preceding. The General Assembly is required to make deposits to the Revenue Stabilization Fund to equal at least 50 percent of the total of: certified tax revenues for the most recently ended fiscal year, multiplied by the difference between the annual percentage increase in certified tax revenues collected for the most recently ended fiscal year, and the average annual percentage increase in certified tax revenues collected for the six fiscal years immediately preceding the most recently ended fiscal year.

Item 265 B of Chapter 781 of the 2009 Acts of Assembly requires this Office to report to the General Assembly on or before November 1<sup>st</sup> of each year.

### Statutory Deposit

Legislation passed during the 2003 General Assembly Session added a requirement for an additional deposit to the Revenue Stabilization Fund under certain conditions. The provisions of this change were effective July 1, 2003. The conditions are as follows:

1. a growth of the certified tax revenues collected in the most recently ended fiscal year of 8 percent or greater than the certified tax revenues collected for the immediately preceding fiscal year;
2. a growth of the certified tax revenues for the most recently ended fiscal year greater than 1.5 times the average percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year; and
3. the estimate of general fund revenues prepared in accordance with Section 2.2-1503 of the Code of Virginia for the fiscal year in which the deposit is to be made is at least five percent greater than the actual general fund revenues for the immediately preceding fiscal year.

If the above conditions exist, the Governor must include in his budget recommendations, submitted to the General Assembly in the subsequent session, an amount equal to at least 25 percent of the product of the certified tax revenues collected in the most recently ended fiscal year, multiplied by the difference between the annual percentage increase in the certified tax revenues collected for the most recently ended fiscal year and the average annual increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year.

## Withdrawals

Per Article X, Section 8 of the Virginia Constitution, the General Assembly may appropriate an amount for transfer from the Fund to compensate for no more than one-half of the difference between the total general fund revenues appropriated and a revised general fund revenue forecast presented to the General Assembly prior to or during a subsequent regular or special legislative session. However, no transfer shall be made unless the general fund revenues appropriated exceed such revised general fund revenue forecast by more than two percent of certified tax revenues collected in the most recently ended fiscal year. Furthermore, no appropriation or transfer from such fund in any fiscal year shall exceed more than one-half of the balance of the Revenue Stabilization Fund.