



## **REVENUE STABILIZATION FUND**

### **CALCULATIONS FOR THE YEAR ENDED JUNE 30, 2013**



# Commonwealth of Virginia

*Auditor of Public Accounts*

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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>
2011	\$13,957,363
2012	\$14,787,518
2013	\$15,556,232
Average for three years	\$14,767,038
Maximum fund allowed (15% of average)	\$ 2,215,056

## **CALCULATION OF CONSTITUTIONAL DEPOSIT**

Certified tax revenues increased by 5.20 percent between fiscal years 2012 and 2013, and the average revenue growth for the preceding six years was 2.07 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is 3.13 percent. As a result, the General Assembly must make a mandatory deposit of \$243,169,872 related to fiscal year 2013 tax collections, as required by the Virginia Constitution. Exhibit 1 provides the certified tax revenue amounts used in the calculation.

The Comptroller's General Fund Preliminary Annual Report includes a General Fund balance restriction of \$243,169,872 for the fiscal year 2015 mandatory deposit. In addition, a General Fund balance restriction of \$244,645,117 is included for the fiscal year 2014 mandatory deposit related to fiscal year 2012 tax collections.

Chapter 806 of the 2013 Acts of Assembly required an additional fiscal year 2014 deposit of \$95,000,000 to a reserve account for the Revenue Stabilization Fund. This deposit is an advance reservation of any required deposit to the Revenue Stabilization Fund attributable to fiscal year 2013 or fiscal year 2014 actual tax collections. The Comptroller has allocated approximately \$70,763,000 of the reservation to fully fund the projected fiscal year 2016 mandatory deposit based on fiscal year 2014 estimated tax collections. The remaining balance of approximately \$24,237,000, has been allocated as a prepayment towards the calculated 2015 mandatory deposit related to fiscal year 2013 actual tax collections.

#### Fiscal Year 2013 Activity

In June 2013, in accordance with Item 266 B of Chapter 806 of the 2013 Acts of Assembly, a deposit of \$132,688,650 was made to the Revenue Stabilization Fund. There were no withdrawals from the Revenue Stabilization fund in fiscal year 2013. Exhibit 2 provides the funding progress of the Fund through June 30, 2013.

### **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. As shown in Exhibit 3, the growth of certified tax revenues does not meet all 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. There are no pending withdrawals from the Fund. However, we have included the information below to assist the General Assembly in considering future withdrawal requests.

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. The two percent threshold based on fiscal year 2013 collections is \$311,124,630. 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. Half of the balance of the Fund as of June 30, 2013, is \$219,985,882.

All actions withdrawing funds from the 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.

### **PROJECTED DEPOSITS AND BALANCES**

To provide information to the General Assembly on the impact of future revenue increases, we have performed pro forma calculations on projected deposits to the Fund using forecasted revenues for fiscal years 2014 through 2018 as shown in Exhibit 5. There are projected mandatory deposits for forecasted revenues for fiscal years 2014 and 2015. Under certain circumstances, there are statutory requirements for additional

deposits; however, none of these conditions occur using the projected revenue forecasts for fiscal years 2014 through 2018.

The Fund will continue to experience growth in fiscal year 2014, when the mandatory deposit calculated for 2012 revenues will occur, but the fund will not reach its maximum allowed level through 2018.

### **HISTORICAL INFORMATION**

Exhibits 6 and 7 provide historical information on the Revenue Stabilization Fund including a graphical illustration of fund balance by fiscal year and a schedule of deposits and withdrawals.

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

AUDITOR OF PUBLIC ACCOUNTS

Enclosure

LDJ: clj

### Exhibit 1

#### CALCULATIONS USED FOR THE REVENUE STABILIZATION FUND (DOLLARS IN THOUSANDS)

##### Tax Revenue Required for Computation

Years	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals	Annual Percentage Change	Preceding Six Year Annual Average
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%
2010	9,088,732	806,473	3,264,209	13,159,414	(0.65)%	6.02%
2011	9,944,652	822,259	3,190,452	13,957,363	6.06%	4.16%
2012	10,612,918	859,923	3,314,677	14,787,518	5.95%	2.64%
2013	11,340,015	796,728	3,419,489	15,556,232	5.20%	2.07%

### Exhibit 2

#### SCHEDULE OF FUNDING PROGRESS

	Amounts (In Thousands)
Balance at June 30, 2012	\$303,574
June 2013 mandatory deposit	132,689
Interest earned during fiscal year 2013	<u>3,709</u>
Total in fund at June 30, 2013	<u>439,972</u>
Percentage of maximum fund allowed	19.9%
Required future deposits*:	
Fiscal year 2014 mandatory deposit	244,645
Fiscal year 2015 mandatory deposit	<u>243,170</u>
Total fund including required deposits	<u>\$927,787</u>

\* A fiscal year 2014 deposit in the amount of \$244,645 is required based on fiscal year 2012 calculations. A fiscal year 2015 deposit in the amount of \$243,170 is required based on fiscal year 2013 calculations.

**Exhibit 3**

**CALCULATIONS FOR STATUTORY DEPOSIT**  
(As required by Section 2.2-1829 of the Code Of Virginia)

Growth of certified tax revenues collected in most recently ended fiscal year	5.20%
Average revenue growth for the preceding six years multiplied by 1.5	3.11%
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*	2.23%

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

\*Calculated based on the general fund revenue estimate in Chapter 806 of the 2013 Acts of Assembly.

**Exhibit 4**

**CALCULATIONS FOR WITHDRAWALS**

Calculation of Two Percent Threshold

	<u>Threshold Amounts (in thousands)</u>
Certified tax revenues collected in most recently ended fiscal year (2013)	\$15,556,232
Two percent of certified tax revenues (threshold established by Virginia Constitution)	\$ 311,125

Calculation of One Half the Balance of the Fund

	<u>Balance Amounts (in thousands)</u>
Revenue Stabilization Fund Balance at June 30, 2013	\$439,972
Fifty percent of the balance of the Fund	\$219,986

**Exhibit 5**

**PROJECTED DEPOSITS AND BALANCES**

Calculations

We performed our calculations using the Official General Fund Forecast as presented in Chapter 806 of the 2013 Acts of Assembly for growth percentage projections for fiscal year 2014 and the December 2012 General Fund Forecast for growth percentage projections for fiscal years 2015 through 2018. See Appendix A for conditions triggering a Mandatory or Statutory deposit.

**Projected Mandatory Deposits: Fiscal Years 2014 through 2018 (in thousands)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Corporate Income Tax	\$ 839,800	\$ 830,562	\$ 827,240	\$ 819,795	\$ 821,434
Individual and Fiduciary Income Taxes	11,624,600	12,263,953	12,766,775	13,341,280	13,888,272
State Sales and Use Taxes	<u>3,533,000</u>	<u>3,734,535</u>	<u>3,883,916</u>	<u>4,035,016</u>	<u>4,172,206</u>
Total Projected Certified Tax Revenue	<u>\$15,997,400</u>	<u>\$16,829,050</u>	<u>\$17,477,931</u>	<u>\$18,196,091</u>	<u>\$18,881,912</u>
Annual Percentage Change	2.84%	5.20%	3.86%	4.11%	3.77%
Preceding Six Year Annual Average	<u>1.95%</u>	<u>2.08%</u>	<u>4.10%</u>	<u>4.85%</u>	<u>4.52%</u>
Difference	<u>0.89%</u>	<u>3.12%</u>	<u>-0.24%</u>	<u>-0.74%</u>	<u>-0.75%</u>
<b>Required Mandatory Deposit</b>	<b>\$70,763</b>	<b>\$262,200</b>	<b>No Deposit</b>	<b>No Deposit</b>	<b>No Deposit</b>
<b>Deposit Year</b>	<b>2016</b>	<b>2017</b>			



**Projected Statutory Deposits: Fiscal Years 2014 through 2018 (in thousands)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Growth of certified tax revenues collected in most recently ended fiscal year	2.84%	5.20%	3.86%	4.11%	3.77%
Average revenue growth for the preceding six years multiplied by 1.5	2.93%	3.12%	6.15%	7.28%	6.79%
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	4.90%	3.70%	3.90%	3.60%	3.70%
<b>Required Statutory Deposit</b>	<b>No Deposit</b>	<b>No Deposit</b>	<b>No Deposit</b>	<b>No Deposit</b>	<b>No Deposit</b>

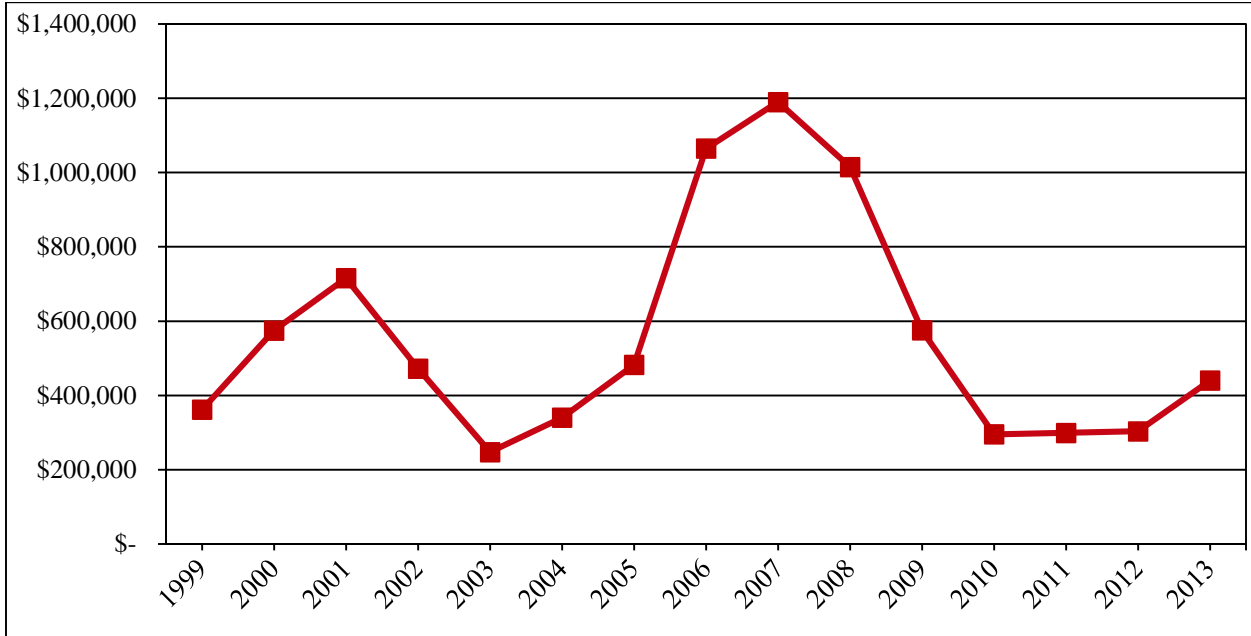
**Projected Revenue Stabilization Fund Balance (in thousands)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenue Stabilization Fund Balance*	\$ 684,617	\$ 927,787	\$ 998,550	\$1,260,750	\$1,260,750
Maximum Fund Allowed	\$2,215,056	\$2,317,057	\$2,419,134	\$2,515,219	\$2,625,154

\* Assumes no withdrawals and does not include projected interest earnings.

**Exhibit 6**

**REVENUE STABILIZATION FUND BALANCE  
FISCAL YEAR 1999 – 2013  
(DOLLARS IN THOUSANDS)**



**Exhibit 7**

**SCHEDULE OF DEPOSITS AND WITHDRAWALS  
(DOLLARS IN THOUSANDS)**

<u>Date of Deposit</u>	<u>Amount</u>	<u>Date of Withdrawal</u>	<u>Amount</u>
June 1995	79,897	April 2002	467,731
June 1997	66,625	June 2003	247,481
June 1998	58,314	June 2008	351,500
June 1999	123,834	June 2009	490,000
June 2000	194,136	June 2010	295,096
June 2001	103,346		
April 2002	187,091		
June 2004	87,000		
June 2005	134,468		
June 2006	181,936		
June 2006	402,224		
June 2007	106,690		
June 2008	114,845		
June 2009	21,321		
June 2013	132,689		

## 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 fifteen 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 266 A of Chapter 806 of the 2013 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 eight 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.