

REVENUE STABILIZATION FUND

CALCULATIONS FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
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October 30, 2014

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> |
|--|--|
| 2012 | \$14,787,518 |
| 2013 | \$15,556,232 |
| 2014 | \$15,410,126 |
| Average for three years | \$15,251,292 |
| Maximum fund allowed (15% of average) | \$ 2,287,694 |

CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2014, certified tax revenues decreased by 0.94 percent between fiscal years 2013 and 2014, and the average revenue growth for the preceding six years was 1.95 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is a **negative** 2.89 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 based on fiscal year 2014 tax collections. Exhibit 1 provides certified tax revenue amounts used in the calculation.

Fiscal Year 2014 Activity and Pending Deposit

In June 2014, in accordance with Item 266 C of Chapter 1 of the 2014 Acts of Assembly, a deposit of \$244.6 million was made to the Revenue Stabilization Fund. There were no withdrawals from the Revenue Stabilization fund in fiscal year 2014.

In Chapter 2 of the 2014 Acts of Assembly, the General Assembly has appropriated \$243.2 million for deposit into the Fund for fiscal year 2015. This amount represents the minimum mandatory deposit for fiscal year 2015 related to actual tax collections during fiscal year 2013. Exhibit 2 provides the funding progress of the Fund through June 30, 2014, and the anticipated balance following the appropriated deposit for fiscal year 2014.

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. House Bill 5010, the Act amending Chapter 2 of the 2014 Acts of Assembly, includes a planned withdrawal from the Fund for \$470 million for the fiscal year ended June 30, 2015.

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 September 2014, the Governor released the revised estimated revenue collections for fiscal year 2015, which were included in House Bill 5010, the Act amending Chapter 2 of the 2014 Acts of Assembly, Special Session I. The general fund revenues appropriated in Chapter 2 exceed the revised general fund forecast by \$1,151,635,229, which exceeds the two percent threshold of \$308,202,518. One half of the calculated difference between the general fund revenues appropriated and the revised general fund forecast for fiscal year 2015 of \$575,817,615 is greater than one half of the balance of the Fund at June 30, 2014. One half of the balance of the Fund as of June 30, 2014 is \$343,765,052. One half of the balance of the Fund once the pending deposit is made in fiscal year 2015 is \$465,349,988. Therefore, the amount available for withdrawal is dependent on the timing of the withdrawal in relation to the pending deposit. This withdrawal 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 2015.

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 2015 and 2016 as shown in Exhibit 5. There is a projected mandatory deposit for forecasted revenues for fiscal year 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 2015 and 2016.

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 |
| 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% |
| 2014 | 11,253,412 | 757,491 | 3,399,223 | 15,410,126 | (0.94)% | 1.95% |

Exhibit 2
SCHEDULE OF FUNDING PROGRESS

| | Amounts (In Thousands) |
|---|---------------------------|
| Balance at June 30, 2013 | \$439,972 |
| June 2014 mandatory deposit | 244,645 |
| Interest earned during fiscal year 2014 | <u>2,913</u> |
| Total in fund at June 30, 2014 | <u>687,530</u> |
| Percentage of maximum fund allowed | 30.1% |
| Required future deposits*: | |
| Fiscal year 2015 mandatory deposit | <u>243,170</u> |
| Total fund including required deposits | <u>\$930,700</u> |

* 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 | (0.94)% |
| Average revenue growth for the preceding six years multiplied by 1.5 | 2.93% |
| 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* | 2.94% |

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

*Calculated based on House Bill 5010, the Act amending Chapter 2 of the 2014 Acts of Assembly, Special Session I.

Exhibit 4

CALCULATIONS FOR WITHDRAWALS

Calculation of Two Percent Threshold

| | Threshold Amounts (in thousands) |
|--|--|
| Certified tax revenues collected in most recently ended fiscal year (2014) | \$15,410,126 |
| Two percent of certified tax revenues (threshold established by Virginia Constitution) | \$308,203 |

Calculation of Total Revised General Fund Forecast

| | Threshold Amounts (in thousands)* |
|-------------------------------------|---|
| General fund revenue estimate | \$16,894,206 |
| General fund transfers | 618,118 |
| General fund balance forward | <u>294,768</u> |
| Total revised general fund forecast | <u><u>\$17,807,092</u></u> |

*Obtained from House Bill 5010, the Act amending Chapter 2 of the 2014 Acts of Assembly, Special Session I.

Calculation of Variance

| | Variance Amounts (in thousands) |
|--|---------------------------------------|
| General fund revenues appropriated (per Chapter 2) | \$ 18,958,728 |
| Revised General fund forecast | <u>17,807,093</u> |
| Calculated variance | <u>\$ 1,151,635</u> |
| One half of calculated variance | <u>\$ 575,818</u> |

Calculation of One Half the Balance of the Fund

| | As of June 30, 2014 <u>(in thousands)</u> | Balance Amount including pending deposit <u>(in thousands)*</u> |
|--|--|--|
| Revenue Stabilization Fund Balance at June 30, 2014 | \$687,530 | \$930,700 |
| Fifty percent of the balance of the Fund | \$343,765 | \$465,350 |

*Does not include projected interest earnings.

Exhibit 5

PROJECTED DEPOSITS AND BALANCES

Calculations

We performed our calculations using the Official Revised General Fund Forecast as presented in the “Fiscal Year 2015 Revised Estimate Per House Bill 5010 as of September 18, 2014” per the monthly revenue report and the “Interim Economic Outlook and Revenue Forecast through Fiscal Year 2018” presentation to the Joint Money Committees and the Governor’s Advisory Council on Revenue estimates for fiscal years 2015 and 2016, respectively. See Appendix A for conditions triggering a Mandatory or Statutory deposit.

Projected Mandatory Deposits: Fiscal Years 2015 and 2016 (in thousands)

| | 2015 | 2016 |
|---------------------------------------|------------------|-------------------|
| Corporate Income Tax | \$ 750,900 | \$ 744,200 |
| Individual and Fiduciary Income Taxes | 11,636,500 | 11,963,300 |
| State Sales and Use Taxes | 3,551,200 | 3,626,600 |
| Total Projected Certified Tax Revenue | \$15,938,600 | \$16,334,100 |
| Annual Percentage Change | 3.43% | 2.88% |
| Preceding Six Year Annual Average | 1.45% | 3.11% |
| Difference | 1.98% | (0.23)% |
| Required Mandatory Deposit | \$157,471 | No Deposit |
| Deposit Year | 2017 | |

Projected Statutory Deposits: Fiscal Years 2015 and 2016 (in thousands)

| | 2015 | 2016 |
|---|-------------------|-------------------|
| Growth of certified tax revenues collected in most recently ended fiscal year | 3.43% | 2.88% |
| Average revenue growth for the preceding six years multiplied by 1.5 | 2.18% | 4.66% |
| 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 | 2.67% | 3.50% |
| Required Statutory Deposit | No Deposit | No Deposit |

Exhibit 6

**REVENUE STABILIZATION FUND BALANCE
FISCAL YEAR 2000 – 2014
(DOLLARS IN THOUSANDS)**

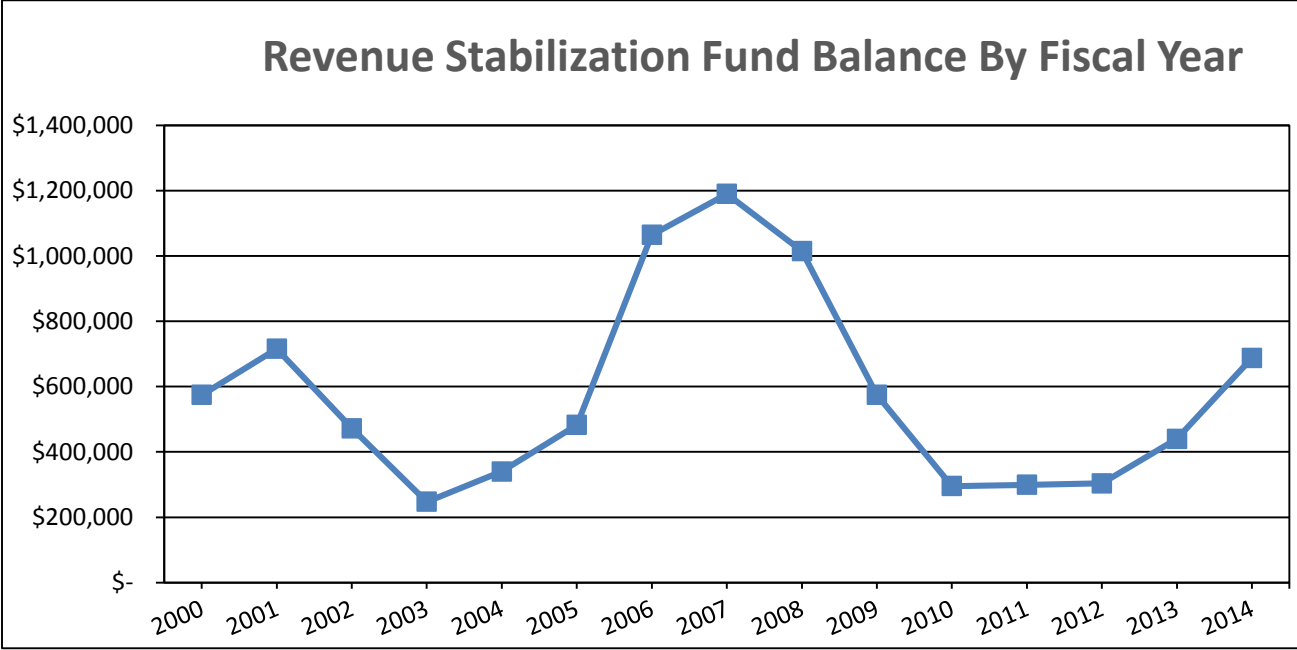


Exhibit 7

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 | | |
| June 2014 | 244,645 | | |

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 1 of the 2014 Acts of Assembly requires this Office to report to the General Assembly on or before November 1st 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.