

REVENUE STABILIZATION FUND

CALCULATIONS FOR THE YEAR ENDED JUNE 30, 2015

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>
2013	\$15,556,232
2014	15,410,126
2015	16,748,464
Average for three years	15,904,941
Maximum fund allowed (15% of average)	2,385,741

CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2015, certified tax revenues increased by 8.68 percent between fiscal years 2014 and 2015, and the average revenue growth for the preceding six years was 1.45 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is 7.23 percent. As a result, the General Assembly must make a mandatory deposit of \$605,572,105 related to fiscal year 2015 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 \$605,572,105 for the 2017 mandatory deposit. This restriction includes the advance reservation of \$129,500,000 as required by Chapter 665 of the 2015 Acts of Assembly. The Act required an advance reservation for any required deposit to the Revenue Stabilization Fund based on certified tax revenues for fiscal year 2015 or 2016.

Fiscal Year 2015 Activity

In June 2015, in accordance with Item 262 B. of Chapter 665 of the 2015 Acts of Assembly, a deposit of \$243,170,048 was made to the Revenue Stabilization Fund. Following this deposit, in accordance with Item 262 D.4 of Chapter 665 of the 2015 Acts of Assembly, there was a withdrawal of \$467,717,444 from the Fund. This withdrawal represented exactly one-half the balance of the Fund. Exhibit 2 provides the funding progress of the Fund through June 30, 2015.

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. Further, Item 262 D. of Chapter 665 of the 2015 Acts of Assembly contains additional guidelines for determining the amounts used in the withdrawal calculations. Chapter 665 of the 2015 Acts of Assembly also includes a planned withdrawal from the Fund for \$235,000,000 for the fiscal year ended June 30, 2016.

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.

The general fund revenues appropriated in Chapter 2 of the 2014 Acts of Assembly exceed the revised general fund forecast by \$686,068,792, which exceeds the two percent threshold of \$334,969,282. One-half of the calculated difference between the general fund revenues appropriated and the revised general fund forecast for fiscal year 2016 of \$343,034,396 is greater than one-half of the balance of the Fund at June 30, 2015. One-half of the balance of the Fund as of June 30, 2015, is \$233,858,722.

All actions of withdrawing funds from the Revenue Stabilization Fund are subject to review and approval by the General Assembly. Exhibit 4 contains detailed calculations of the amounts above, using the requirements established in the Virginia Constitution and the guidelines contained in Chapter 665 of the 2015 Acts of Assembly.

PROJECTED DEPOSITS AND BALANCES

To provide information to the General Assembly on the impact of future revenue changes, we have performed pro forma calculations on the projected deposit to the Fund using forecasted revenues for fiscal year 2016 as shown in Exhibit 5. Based on forecasted revenues, there is no projected mandatory deposit for fiscal year 2016. Under certain circumstances, there are statutory requirements for additional deposits; however, none of these conditions occur using the projected revenue forecasts for fiscal years 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

Enclosures

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
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%
2015	12,328,708	831,907	3,587,849	16,748,464	8.68%	1.45%

Exhibit 2

SCHEDULE OF FUNDING PROGRESS

	Amounts (In Thousands)
Balance at June 30, 2014	\$ 687,530
June 2015 mandatory deposit	243,170
Interest earned during fiscal year 2015	4,734
Withdrawal during fiscal year 2015	<u>(467,717)</u>
 Total in fund at June 30, 2015	 <u>467,717</u>
 Percentage of maximum fund allowed	 19.6%
 Required future deposits*:	
Fiscal year 2016 mandatory deposit	-
Fiscal year 2017 mandatory deposit	<u>605,572</u>
 Total fund including required deposits	 <u>\$1,073,289</u>

* A fiscal year 2016 deposit is not required based on fiscal year 2014 calculations. A fiscal year 2017 deposit of \$605,572 is required based on fiscal year 2015 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	8.68%
Average revenue growth for the preceding six years multiplied by 1.5	2.18%
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*	(.08)%

*Calculated based on the general fund revenue estimate in Chapter 665 of the 2015 Acts of Assembly.

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

Exhibit 4

CALCULATIONS FOR WITHDRAWALS

Calculation of Two Percent Threshold

	Threshold Amounts (In Thousands)
Certified tax revenues collected in most recently ended fiscal year (2015)	\$16,748,464
Two percent of certified tax revenues (threshold established by Virginia Constitution)	\$ 334,969

Calculation of Total Revised General Fund Forecast

	Forecast Amount* (In Thousands)
General fund revenue estimate	\$17,720,629
General fund transfers	564,513
General fund balance forward	<u>1,900</u>
Total revised general fund forecast	<u>\$18,287,042</u>

*Obtained from Chapter 665, 2015 Acts of Assembly.

Calculation of Variance

	Variance Amount (In Thousands)
General fund revenues appropriated*	\$18,973,111
Revised general fund forecast	<u>18,287,042</u>
Calculated variance	<u>\$ 686,069</u>
One half of calculated variance	<u>\$ 343,034</u>

*Obtained from Chapter 2, 2014 Acts of Assembly.

Calculation of Half the Balance

	Balance Amounts* <u>(In Thousands)</u>
Revenue Stabilization Fund Balance at June 30, 2015	\$ 467,717
Fifty percent of the balance of the Fund	\$ 233,859

*Does not include projected interest earnings.

Exhibit 5

PROJECTED DEPOSITS AND BALANCES

Calculations

We performed our calculations using the Official General Fund Forecast as included in Chapter 665 of the 2015 Acts of Assembly. See Appendix A for conditions triggering a mandatory or statutory deposit.

Projected Mandatory Deposit: Fiscal Year 2016 (In Thousands)

Corporate Income Tax	\$ 820,700
Individual and Fiduciary Income Taxes	12,219,700
State Sales and Use Taxes	<u>3,686,000</u>
Total Projected Certified Tax Revenue	<u>\$16,726,400</u>
Annual Percentage Change	(0.13%)
Preceding Six Year Annual Average	<u>4.05%</u>
Difference	<u>(4.18%)</u>
Required Mandatory Deposit	No Deposit

Projected Statutory Deposit: Fiscal Year 2016 (In Thousands)

Growth of certified tax revenues collected in most recently ended fiscal year	(0.13%)
Average revenue growth for the preceding six years multiplied by 1.5	6.08%
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	2.80%
Required Statutory Deposit	No Deposit

Exhibit 6

**REVENUE STABILIZATION FUND BALANCE
FISCAL YEAR 2001 – 2015
(DOLLARS IN THOUSANDS)**

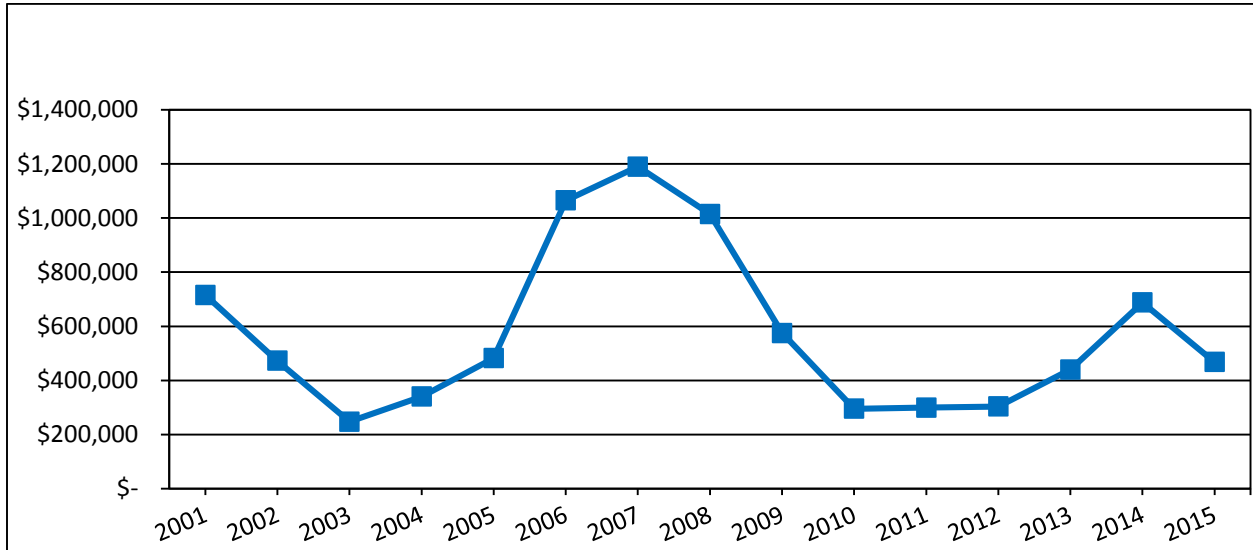


Exhibit 7

**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	June 2015	467,717
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		
June 2015	243,170		

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 2 B. of Chapter 665 of the 2015 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.