



# REVENUE STABILIZATION FUND

## CALCULATIONS FOR THE YEAR ENDED JUNE 30, 2016

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# 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>
2014	\$15,410,126
2015	16,748,464
2016	16,972,162
Average for three years	16,376,917
Maximum fund allowed (15% of average)	2,456,538

### CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2016, certified tax revenues increased by 1.34 percent between fiscal years 2015 and 2016, and the average revenue growth for the preceding six years was 4.05 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is **negative** 2.71 percent.

Since the difference between last year's revenue increase and the average growth is negative, there is no requirement to make a deposit to the fund based on fiscal year 2016 tax collections. Exhibit 1 provides certified tax revenue amounts used in the calculation.

### Fiscal Year 2016 Activity and Pending Deposit

In June 2016, in accordance with Item 262 D.5 of Chapter 665 of the 2015 Acts of Assembly, there was a withdrawal of \$235,485,176 from the Revenue Stabilization Fund. This withdrawal represented exactly one-half the balance of the Fund. There were no required deposits made to the Fund. Exhibit 2 provides the funding progress of the Fund through June 30, 2016.

A deposit of \$605,572,105 is required to be made into the Fund for fiscal year 2017. This amount represents the minimum mandatory deposit related to actual tax collections during fiscal year 2015. The Comptroller's General Fund Preliminary Annual Report includes a general fund balance restriction for the required deposit. The restriction includes the advance reservation of \$129,500,000 as required by Chapter 665 of the 2015 Acts of Assembly.

### **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. In October 2016, the Governor officially indicated that he plans to request that the General Assembly consider a \$392 million withdrawal from the Fund for the fiscal year ended June 30, 2017.

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 2016, the Governor released the revised estimated revenue collections for fiscal year 2017. The general fund revenues appropriated in Chapter 780 of the 2016 Acts of Assembly exceed the revised general fund forecast by \$752,884,736, which exceeds the two percent threshold of \$339,443,231. One-half of the calculated difference between the general fund revenues appropriated and the revised general fund forecast for fiscal year 2017 of \$376,442,368 is greater than one-half of the balance of the Fund at June 30, 2016. One-half of the balance of the Fund as of June 30, 2016, is \$117,742,588. One-half of the balance of the Fund once the pending deposit is made in fiscal year 2017 is \$420,528,641. Therefore, the amount available for withdrawal is dependent upon the timing of the withdrawal in relation to the pending deposit.

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.

## **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 2017 as shown in Exhibit 5. Based on forecasted revenues, there is no projected mandatory deposit for fiscal year 2017. Under certain circumstances, there are statutory requirements for additional deposits; however, none of these conditions occur using the projected revenue forecasts for fiscal years 2017.

## **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
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%
2016	12,555,813	764,948	3,651,400	16,972,161	1.34%	4.05%

## Exhibit 2

### SCHEDULE OF FUNDING PROGRESS

	<b>Amounts (In Thousands)</b>
Balance at June 30, 2015	\$467,717
Interest earned during fiscal year 2016	3,253
Withdrawal during fiscal year 2016	<u>(235,485)</u>
 Total in fund at June 30, 2016	 <u>235,485</u>
 Percentage of maximum fund allowed	 9.6%
 Required future deposits*:	
Fiscal year 2017 mandatory deposit	<u>605,572</u>
 Total fund including required deposits	 <u>\$841,057</u>

\* A fiscal year 2017 deposit in the amount 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	1.34%
Average revenue growth for the preceding six years multiplied by 1.5	6.07%
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%

\*Calculated based on the revenue estimate in the Fiscal Year 2017 Revised Estimate per Summary Report on General Fund Revenue Collections as of August 26, 2016.

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

## Exhibit 4

### CALCULATIONS FOR WITHDRAWALS

#### Calculation of Two Percent Threshold

	<b>Threshold Amounts (In Thousands)</b>
Certified tax revenues collected in most recently ended fiscal year (2016)	\$16,972,161
Two percent of certified tax revenues (threshold established by Virginia Constitution)	\$ 339,443

#### Calculation of Total Revised General Fund Forecast

	<b>Forecast Amount (In Thousands)</b>
General fund revenue estimate*	\$18,338,000
General fund transfers*	577,750
General fund balance forward**	<u>680,905</u>
Total revised general fund forecast	<u>\$19,596,655</u>

\* Obtained from Fiscal Year 2017 Revised Estimate per Summary Report on General Fund Revenue Collections as of August 26, 2016.

\*\*Obtained from Chapter 780, 2016 Acts of Assembly.

#### Calculation of Variance

	<b>Variance Amount (In Thousands)</b>
General fund revenues appropriated*	\$20,349,540
Revised general fund forecast	<u>19,596,655</u>
Calculated variance	<u>\$ 752,885</u>
One half of calculated variance	<u>\$ 376,442</u>

\*Obtained from Chapter 780, 2016 Acts of Assembly.

**Calculation of Half the Balance**

	<b>As of June 30, 2016 <u>(In Thousands)</u></b>	<b>Balance including pending deposit* <u>(In Thousands)</u></b>
Revenue Stabilization Fund Balance	\$ 235,485	\$ 841,057
Fifty percent of the balance of the Fund	\$ 117,743	\$ 420,529

\*Does not include projected interest earnings.



## Exhibit 5

### PROJECTED DEPOSITS AND BALANCES

#### Calculations

We performed our calculations using the Fiscal Year 2017 Revised Estimate per Summary Report on General Fund Revenue Collections as of August 26, 2016. See Appendix A for conditions triggering a mandatory or statutory deposit.

#### **Projected Mandatory Deposit: Fiscal Year 2017 (In Thousands)**

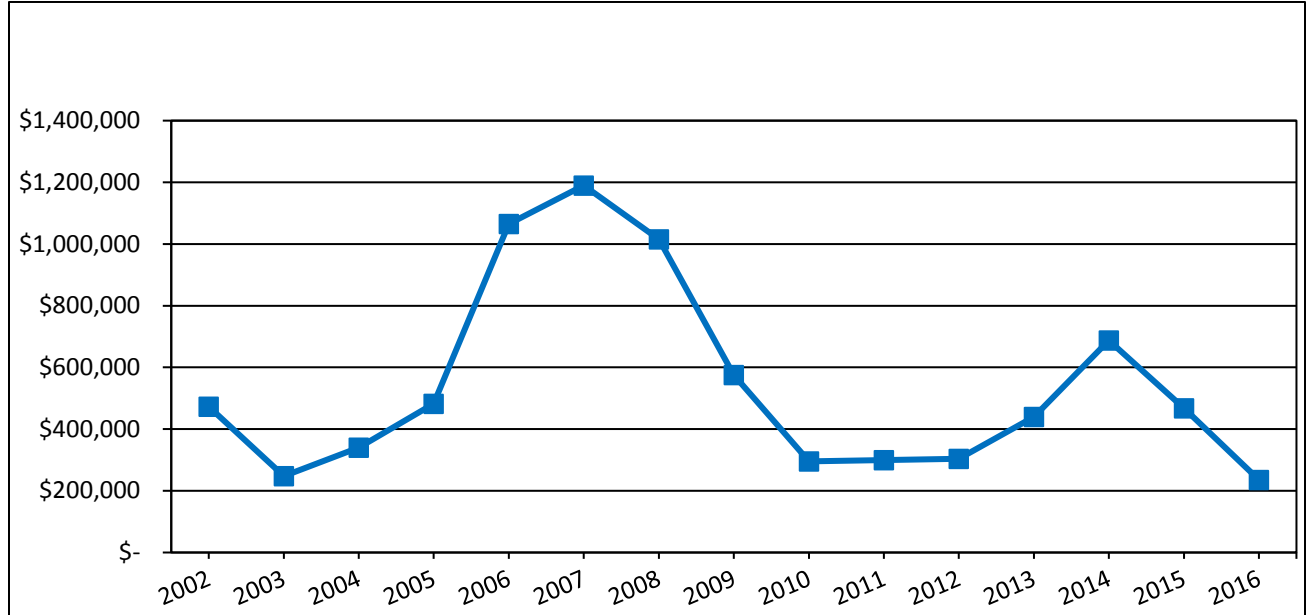
Corporate Income Tax	\$ 742,100
Individual and Fiduciary Income Taxes	12,784,400
State Sales and Use Taxes	<u>3,767,100</u>
Total Projected Certified Tax Revenue	<u>\$17,293,600</u>
Annual Percentage Change	1.89%
Preceding Six Year Annual Average	<u>4.38%</u>
Difference	<u>(2.49%)</u>
<b>Required Mandatory Deposit</b>	<b>No Deposit</b>

#### **Projected Statutory Deposit: Fiscal Year 2017 (In Thousands)**

Growth of certified tax revenues collected in most recently ended fiscal year	1.89%
Average revenue growth for the preceding six years multiplied by 1.5	6.57%
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	3.63%
<b>Required Statutory Deposit</b>	<b>No Deposit</b>

**Exhibit 6**

**REVENUE STABILIZATION FUND BALANCE  
FISCAL YEARS 2002 – 2016  
(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 2016	235,485
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 780 of the 2016 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.