



REVENUE STABILIZATION FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2018

Auditor of Public Accounts
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P.O. Box 1295
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October 26, 2018

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 Fund and the requirements surrounding it.

CALCULATION OF MAXIMUM FUND ALLOWED

<u>Years</u>	<u>Tax Revenues (In Thousands)</u>
2016	\$16,972,162
2017	17,600,496
2018	18,794,912
Average for three years	17,789,190
Maximum fund allowed (15% of average)	\$ 2,668,379

CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2018, certified tax revenues increased by 6.79 percent between fiscal years 2017 and 2018, and the average revenue growth for the preceding six years was 3.99 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is **positive** 2.80 percent. As a result, the General Assembly must make a mandatory deposit of \$262,941,731 related to fiscal year 2018 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 \$262,941,731 for the 2020 mandatory deposit.

Fiscal Year 2018 Activity

In accordance with Item 267 D.5 of Chapter 836 of the 2017 Acts of Assembly, there was a withdrawal of \$272,542,500 from the Revenue Stabilization Fund. The withdrawal represented less than one-half the balance of the Fund. As of June 30, 2018, half the balance of the Fund prior to the withdrawal was \$277,908,585. Further, in accordance with Item 267 of the 2017 Acts of Assembly, there was no deposit made to the Fund. A deposit to the Fund was not required based on actual tax collections during the 2016 fiscal year. Exhibit 2 provides the funding progress of the Fund through June 30, 2018.

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.

PROJECTED ACTIVITY 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 2019 as shown in Exhibit 4. Based on forecasted revenues, there is no projected mandatory deposit for fiscal year 2019. Under certain circumstances, there are statutory requirements for additional deposits; however, none of these conditions occur using the projected revenue forecast for fiscal year 2019.

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. Pursuant to Item 265 of Chapter 2 of the 2018 Acts of Assembly, there is no planned withdrawal from the Fund for the fiscal year ending June 30, 2019.

HISTORICAL INFORMATION

Exhibits 5 and 6 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
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%
2017	13,052,983	826,961	3,720,552	17,600,496	3.70%	4.38%
2018	14,105,937	861,897	3,827,078	18,794,912	6.79%	3.99%

Exhibit 2

SCHEDULE OF FUNDING PROGRESS

	Amounts (In Thousands)
Balance at June 30, 2017	\$548,820
June 2018 mandatory deposit	-
Interest earned during fiscal year 2018	6,997
Withdrawal during fiscal year 2018	<u>(272,542)</u>
 Total in fund at June 30, 2018	 <u>\$283,275</u>
 Percentage of maximum fund allowed	 10.6%
 Required future deposit*	
Fiscal year 2019 mandatory deposit	-
Fiscal year 2020 mandatory deposit	<u>262,942</u>
 Total in fund including required deposits	 <u>\$546,217</u>

*A fiscal year 2019 deposit is not required based on fiscal year 2017 calculations, and a fiscal year 2020 deposit is required based on fiscal year 2018 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	6.79%
Average revenue growth for the preceding six years multiplied by 1.5	5.98%
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*	1.47%

*Calculated based on the general fund revenue estimate in Chapter 2 of the 2018 Acts of Assembly.

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

Exhibit 4

PROJECTED DEPOSITS AND BALANCES

Calculations

We performed our calculations using the Review of General Fund Revenues and the Virginia Economy for Fiscal Year 2018 report as of August 17, 2018. See Appendix A for conditions triggering a mandatory or statutory deposit.

Projected Mandatory Deposit: Fiscal Year 2019 (In Thousands)

Corporate Income Tax	\$ 912,000
Individual and Fiduciary Income Taxes	14,183,800
State Sales and Use Taxes	<u>3,934,000</u>
Total Projected Certified Tax	<u>\$19,029,800</u>
Annual Percentage Change	1.25%
Preceding Six Year Annual Average	<u>4.13%</u>
Difference	<u>(2.88%)</u>
Required Mandatory Deposit	No Deposit

Projected Statutory Deposit: Fiscal Year 2019

Growth of certified tax revenues collected in most recently ended fiscal year	1.25%
Average revenue growth for the preceding six years multiplied by 1.5	6.19%
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	3.98%
Required Statutory Deposit	No Deposit

Exhibit 5

**REVENUE STABILIZATION FUND BALANCE
FISCAL YEARS 2004 – 2018
(DOLLARS IN THOUSANDS)**

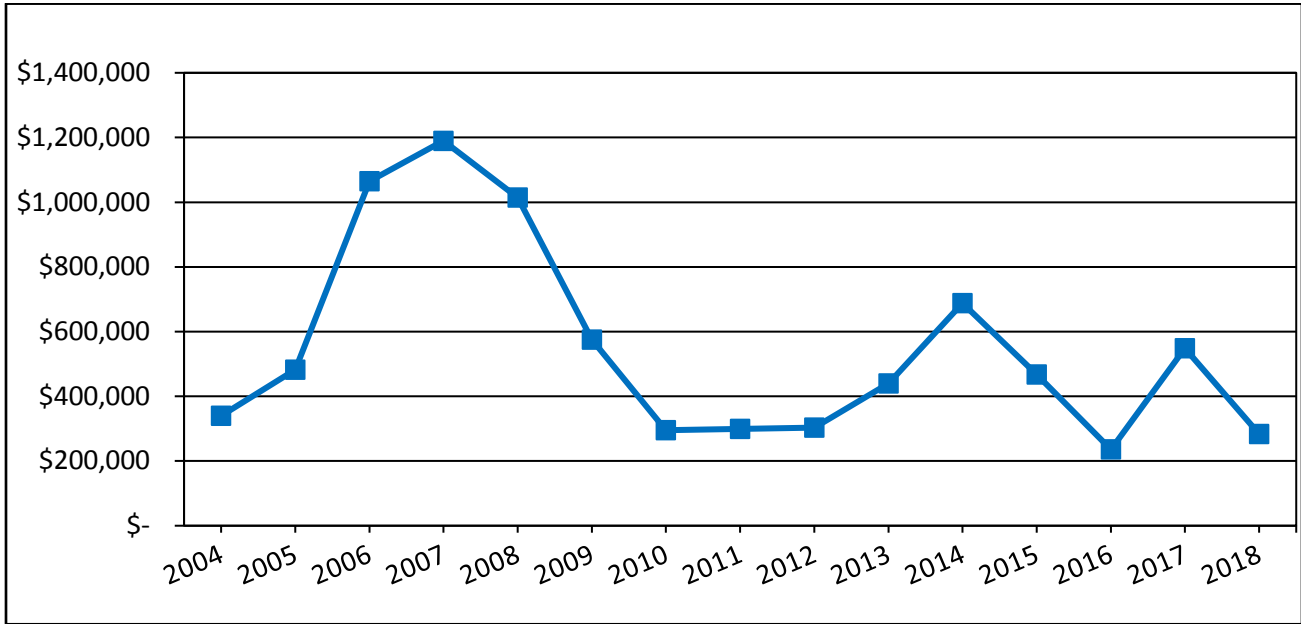


Exhibit 6

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 2017	294,653
June 2005	134,468	June 2018	272,542
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		
June 2017	605,572		

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 2B. of Chapter 2 of the 2018 Acts of Assembly requires this Office to report to the General Assembly on or before November 1 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, per Article X, Section 8 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.

Item 267 D.1 – D.4 of Chapter 836 of the 2017 Acts of Assembly contained additional guidelines for determining the amounts to use in the withdrawal calculation. The guidelines are as follows:

1. For purposes of determining a transfer from the Revenue Stabilization Fund to the general fund as a result of a downward revision in general fund revenues, the term “total general fund revenues appropriated” shall mean the general fund operating and capital appropriations for each year of the biennium contained in the Appropriation Act which is in effect at the time when such downward revision in general fund revenues is made.
2. In accordance with Article 10, § 8, Virginia Constitution, and § 2.2-1830, Code of Virginia, the amount of the transfer shall not exceed the lesser of one-half of the balance of the Revenue Stabilization Fund or one-half of the forecasted shortfall in revenues.
3. The anticipated shortfalls in general fund revenues for fiscal years ending June 30, 2017, and June 30, 2018, shall be computed by comparing the revised forecast for “Total General Fund Resources Available for Appropriation” as shown in § 3 of the first enactment to the total general fund revenues appropriated for each year of the biennium as contained in the general appropriation act as it became effective on July 1, 2016 (Chapter 780 of the Acts of Assembly of 2016).
4. For purposes of computing the shortfall in revenues, the revised forecast referenced in paragraph 3 above shall consist of the revised forecast of revenues and transfers presented to the Governor's Advisory Council on Revenue Estimates on November 28, 2016, adjusted for any technical revisions pursuant to current law. Any subsequent policy-based adjustments to revenues or transfers that are dependent upon the passage of legislation or other budgetary action that requires approval by the 2017 General Assembly shall not be considered as part of the adjustments to the forecast for purposes of calculating the revenue shortfall in fiscal year 2017 or fiscal year 2018.