



REVENUE STABILIZATION FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov
(804) 225-3350





Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2022

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 (Dollars in Thousands)

<u>Years</u>	<u>Tax Revenues</u>
2020	\$20,476,114
2021	23,444,713
2022*	26,420,869
Average for three years	\$23,447,232
Maximum fund allowed (15% of average)	\$ 3,517,085

*The certified amounts for fiscal year 2022 are reduced by estimated refunds due for the Individual Income Tax Rebate in the amount of \$1,048,612 (dollars in thousands) pursuant to Item 3-5.24 of Chapter 1 of the 2022 Acts of Assembly, Special Session I.

CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2022, certified tax revenues increased by 12.69 percent between fiscal years 2021 and 2022, and the average revenue growth for the preceding six years was 5.85 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is **positive** 6.85 percent. As a result, the General Assembly must make a mandatory deposit of \$904,652,425 related to fiscal year 2022 tax collections, as required by the Virginia Constitution. Exhibit 1 provides certified tax revenue amounts used in the calculation. The Comptroller's General Fund Preliminary Annual Report includes a general fund balance restriction of \$904,652,425 for the 2024 mandatory deposit.

The certified tax revenues used in our calculation are based on fiscal year 2022 tax revenues reduced by estimated refunds totaling \$1,048,612,043 for the Individual Income Tax Rebate pursuant to Item 3-5.24 of Chapter 1 of the 2022 Acts of Assembly, Special Session I. Our calculation is consistent with the methodology used in our [Revenue Stabilization Fund Calculations for the year ended June 30, 2019](#) (pursuant to language specified in Item 3-5.21 of Chapter 854 of the 2019 Acts of Assembly), which also reduced revenues by the amount that was used to provide taxpayer refunds. Without excluding the impact of the estimated refunds, the calculated deposit would be \$1,554,870,933.

Individuals have until November 1, 2022, to file a return to be eligible for a refund. All refunds will be issued no later than four months after a return is filed; therefore, the actual total refund amount will not be known until all refunds are issued. Once finalized, if the difference between estimated and actual refunds is determined to be significant, this Office will provide an updated letter to communicate the impact on the required calculations.

Fiscal Year 2022 Activity

There were no required deposits based on actual collections from fiscal year 2020 or withdrawals from the Revenue Stabilization Fund in fiscal year 2022. The only change to the balance was interest earned. Exhibit 2 provides the funding progress of the Fund through June 30, 2022.

Pursuant to Item 274 C.1 of Chapter 1, of the 2022 Acts of Assembly, Special Session I, the Comptroller deposited \$498,700,000 to the Revenue Reserve Fund as an advance reservation for the required 2024 deposit to the Revenue Stabilization Fund attributable to actual tax collections for fiscal year 2022 as included in Exhibit 2. This amount is included as part of the general fund balance restriction in the Comptroller's General Fund Preliminary Annual Report.

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 meets the requirements of two of the three conditions. However, estimated general fund revenues for fiscal year 2023 are not five percent greater than actual general fund revenues for fiscal year 2022 as required by the third condition. Therefore, the Governor does not need to include an additional deposit in his budget recommendations. Should the Governor revise the revenue forecast above five percent after the date of this letter, this change could lead to an additional deposit. In anticipation of a revised fiscal year 2023 revenue estimate, the Comptroller included an assigned fund balance of \$452,326,000 within the 2022 General Fund Preliminary Annual Report for a potential additional deposit to the Revenue Stabilization Fund.

In the prior year, we reported that there was no statutory deposit required as the third condition required to trigger a deposit, which compares the fiscal year 2021 actual general fund revenues and fiscal year 2022 estimated general fund revenues, was not met. However, in anticipation of a revised fiscal year 2022 revenue estimate, the Comptroller included an assigned fund balance of \$563,867,000 within the 2021 General Fund Preliminary Annual Report for a potential additional deposit to the Revenue Stabilization Fund. The Governor's Office provided a Mid-Session Revenue Review on February 18, 2022,

which recommended a \$1,226,700,000 increase in total fiscal year 2022 general fund revenues and resulted in the third condition being met. As the provisions of the Code of Virginia allow, the General Assembly elected to include an advance reservation of \$498,700,000 in Item 274 C.1 of Chapter 1, of the 2022 Acts of Assembly, Special Session I, as discussed above under the Fiscal Year 2022 Activity Section, in lieu of making an additional deposit into the Revenue Stabilization Fund.

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 Revenue Stabilization Fund using forecasted revenue for fiscal year 2023 as shown in Exhibit 4. Based on the forecasted revenues for fiscal year 2023, there is no projected mandatory deposit for fiscal year 2025. Under certain circumstances, there are statutory requirements for additional deposits; however, none of these conditions occur using the forecasted revenue for fiscal year 2023.

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 267 of Chapter 2, of the 2022 Acts of Assembly, Special Session I, there is no planned withdrawal from the Fund for the fiscal year ending June 30, 2023.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

Enclosures
DBC:vks

Exhibit 1

CALCULATIONS USED FOR THE REVENUE STABILIZATION FUND (Dollars in Thousands)

Years	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals	Percentage Change	Six Year Average
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%
2019	14,801,986	943,391	3,972,960	19,718,337	4.91%	4.13%
2020	15,351,603	1,011,650	4,112,861	20,476,114	3.84%	4.08%
2021	17,304,476	1,515,692	4,624,545	23,444,713	14.50%	4.88%
2022*	19,361,618	1,978,697	5,080,554	26,420,869	12.69%	5.85%

*The certified amounts for fiscal year 2022 Individual and Fiduciary Income Taxes are reduced by estimated refunds due for the Individual Income Tax Rebate in the amount of \$1,048,612 (dollars in thousands) pursuant to Item 3-5.24 of Chapter 1 of the 2022 Acts of Assembly, Special Session I.

Exhibit 2

SCHEDULE OF FUNDING PROGRESS (Dollars in Thousands)

	<u>Amounts</u>
Balance as of June 30, 2021	\$ 639,612
Interest earned during fiscal year 2022	<u>1,311</u>
Balance as of June 30, 2022	<u>640,923</u>
Percentage of maximum fund allowed	18.2%
Required future mandatory deposits*	
Fiscal year 2023	1,127,733
Fiscal year 2024	<u>904,652</u>
Total in fund including required deposits	<u><u>\$2,673,308</u></u>

*Deposits for fiscal years 2023 and 2024 are required based on fiscal years 2021 and 2022 calculations, respectively.

Exhibit 3

CALCULATIONS FOR STATUTORY DEPOSIT

(As required by Section 2.2-1829 of the Code of Virginia)

	Required	Actual	Condition met?
Condition #1			
Growth of certified tax revenues collected in most recently ended fiscal year	8.00%	12.69%	Yes
Condition #2			
Current year growth exceeds 1.5 times the average revenue growth for the preceding six years	8.77%	12.69%	Yes
Condition #3			
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*	5.00%	(14.04%)	No
Required Statutory Deposit			No Deposit

*Calculated based on the general fund revenue estimate in Chapter 2 of the 2022 Acts of Assembly, Special Session I.

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

Exhibit 4

PROJECTED DEPOSITS AND BALANCES

Calculations

We performed our calculations using the Review of General Fund Financial Results and the Virginia Economy for Fiscal Year 2022 as of August 19, 2022. See Appendix A for conditions triggering a mandatory or statutory deposit.

Projected Mandatory Deposit: Fiscal Year 2023 (Dollars in Thousands)

Corporate Income Tax	\$ 1,737,000
Individual and Fiduciary Income*	17,781,212
State Sales and Use Taxes	<u>5,004,700</u>
Total Projected Certified Tax Revenue	<u>\$24,522,912</u>
Annual Percentage Change	(7.18%)
Preceding Six-Year Annual Average	<u>7.74%</u>
Difference	<u>(14.92%)</u>
Required Mandatory Deposit	No Deposit

*The certified amounts for fiscal year 2023 Individual and Fiduciary Income Taxes are increased by estimated refunds due for the Individual Income Tax Rebate in the amount of \$1,048,612 (dollars in thousands) pursuant to Item 3-5.24 of Chapter 1 of the 2022 Acts of Assembly, Special Session I, since the refunds were netted against fiscal year 2022 certified amounts for the 2022 deposit calculations.

Exhibit 4
(continued)

Projected Statutory Deposit: Fiscal Year 2023

	Required	Projected	Condition met?
Condition #1			
Growth of certified tax revenues collected in most recently ended fiscal year	8.00%	(7.18%)	No
Condition #2			
Current year growth exceeds 1.5 times the average revenue growth for the preceding six years	11.61%	(7.18%)	No
Condition #3			
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*	5.00%	(7.20%)	No
Required Statutory Deposit			No Deposit

*Calculated based on the Fiscal Year 2023 general fund revenue estimate in Review of General Fund Financial Results and the Virginia Economy for Fiscal Year 2022 presented on August 19, 2022.

Exhibit 5

REVENUE STABILIZATION FUND BALANCE FISCAL YEARS 2008 – 2022 (Dollars in Thousands)

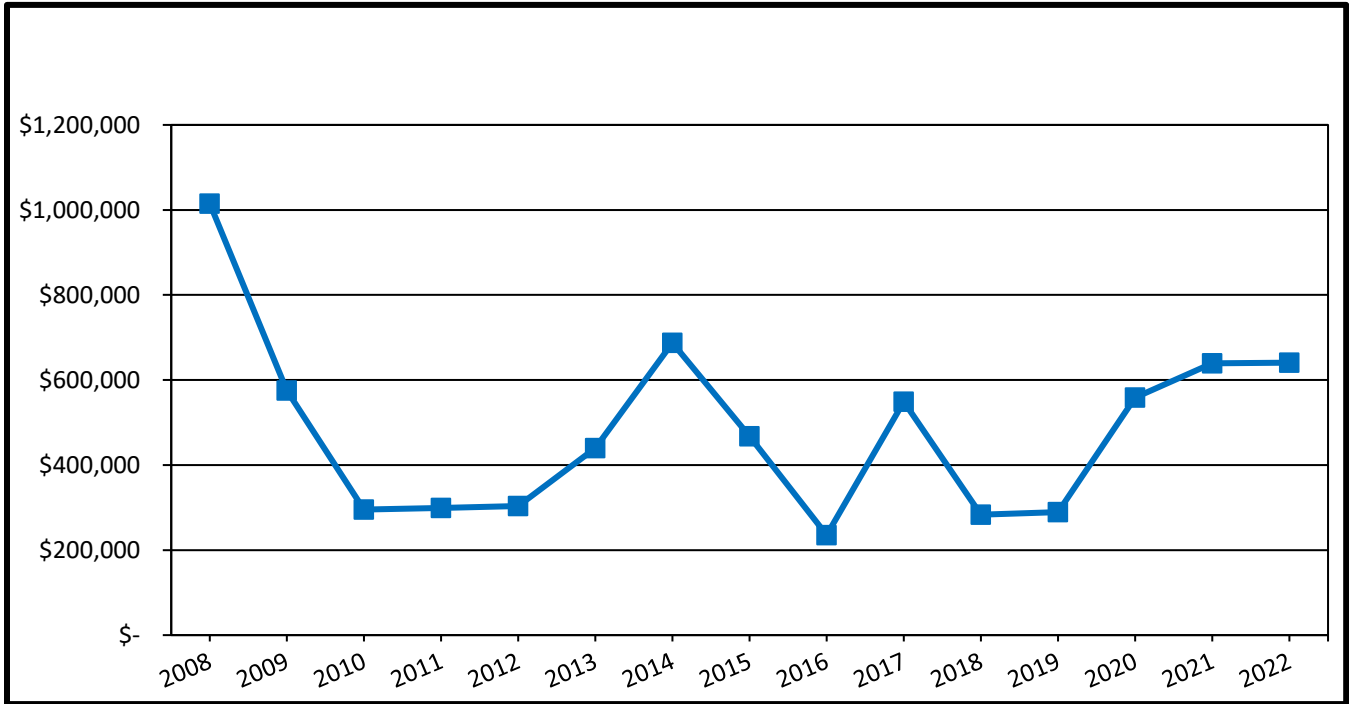


Exhibit 6

SCHEDULE OF DEPOSITS AND WITHDRAWALS

(Dollars in Thousands)

<u>Date</u>	<u>Amount of Deposit</u>	<u>Amount of Withdrawal</u>
June 1995	\$ 79,897	\$ -
June 1996	-	-
June 1997	66,625	-
June 1998	58,314	-
June 1999	123,834	-
June 2000	194,136	-
June 2001	103,346	-
April 2002	187,091	467,731
June 2003	-	247,481
June 2004	87,000	-
June 2005	134,468	-
June 2006	181,936	-
June 2006	402,224	-
June 2007	106,690	-
June 2008	114,845	351,500
June 2009	21,321	490,000
June 2010	-	295,096
June 2011	-	-
June 2012	-	-
June 2013	132,689	-
June 2014	244,645	-
June 2015	243,170	467,717
June 2016	-	235,485
June 2017	605,572	294,653
June 2018	-	272,542
June 2019	-	-
June 2020	262,942	-
June 2021	77,410	-

APPENDIX A

HISTORICAL INFORMATION

Mandatory Deposit

Article X, Section 8 of the Virginia Constitution and the enabling legislation established the Revenue Stabilization Fund, and requires 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 15 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.

For fiscal year 2022, certified tax revenues were reduced by the estimated refunds to be distributed for the Individual Income Tax Rebate pursuant to Item 3-5.24 of Chapter 1 of the 2022 Acts of Assembly, Special Session I. Item 267 A. of Chapter 2, of the 2022 Acts of Assembly, Special Session I 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 these 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 2016 Acts of Assembly).

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.

POTENTIAL FUTURE CHANGES

Item 267 C.2 of Chapter 2, of the 2022 Acts of Assembly, Special Session I required the Secretary of Finance (Secretary) to prepare a report to include recommendations for consideration of any adjustments to, or a removal of, the existing cap on the combined balance of the Revenue Stabilization Fund and the Revenue Reserve Fund. In the Secretary's report dated September 1, 2022, entitled "Recommendations Regarding the Revenue Stabilization Fund and the Revenue Reserve Fund," the Secretary recommended reverting the 20 percent combined maximum back to 15 percent. Additionally, the Secretary recommended modifying or removing the requirement of the additional statutory deposit required by Section 2.2-1829 of the Code of Virginia, encouraging the use of the Revenue Reserve Fund as a vehicle to accumulate the reserves to protect against unforeseen revenue downturns. Finally, the Secretary recommended creating a workgroup to consider potential constitutional adjustments to the calculation of the Revenue Stabilization Fund to simplify and bring greater transparency to the process. The Governor and General Assembly will consider these recommendations during the 2023 General Assembly session.