

November 25, 2003

Dear General Assembly Member:

REVENUE STABILIZATION FUND

This Office is providing a report of the required calculations for the Revenue Stabilization Fund.

BACKGROUND

Article X, Section 8 of the Virginia Constitution and the enabling legislation, requires this Office to report to the General Assembly by December 1, 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 attached exhibit provides the certified tax revenues for the past seven years, the percentage of revenue growth for each year, and the average percentage of revenue growth for the preceding six years. The exhibit shows the calculation for the maximum size of the Revenue Stabilization Fund and the funding progress to date.

New Legislation for Additional Deposits

Legislation passed during the 2003 General Assembly Session added a requirement for an additional deposit to the Revenue Stabilization Fund under certain conditions. This change was effective July 1, 2003, and is not part of this year's calculation. In the future, we will provide information, when the conditions of this change occurs, comparing this requirement with actual collections.

CALCULATION OF MANDATORY DEPOSIT REQUIREMENTS

Certified tax revenues increased by 0.26 percent between fiscal years 2002 and 2003, and the average revenue growth for the preceding six years was 6.77 percent. Under provisions of the Revenue Stabilization Fund, the comparison of last year's revenue growth and the average growth

General Assembly Member
November 25, 2003
Page 2

is a *negative* 6.51 percent. Therefore, the General Assembly does not need to make a deposit to the fund during the fiscal year ended June 30, 2005.

WITHDRAWAL OF FUNDS

In June 2003, in accordance with Item 278.10 B. of Chapter 1042 of the Virginia Acts of Assembly, \$247,481,034 was withdrawn from the Revenue Stabilization Fund. Up to one-half of the balance in the Revenue Stabilization Fund is available for withdrawal in fiscal year 2004 pursuant to the provisions of § 2.2-1830, Code of Virginia. Under these provisions, a withdrawal can occur if the revised official general fund revenue forecast for fiscal year 2004, reflects a decline when compared to general fund revenues appropriated for fiscal year 2004, and the decrease is more than 2% of certified tax revenues collected in fiscal year 2003. Since the revised revenue estimate presented to the General Assembly in August 2002 reflected a decline that meets these provisions, Item 278.10 C. of Chapter 1042 of the Virginia Acts of Assembly, authorizes a withdrawal from the Revenue Stabilization Fund estimated at \$128,500,000, to occur on or after June 1, 2004, but on or before June 30, 2004. This amount includes an estimate for interest accumulated in fiscal year 2004.

Should you have any questions concerning this information, please contact me.

AUDITOR OF PUBLIC ACCOUNTS

WJK:aom
Enclosure

**CALCULATIONS FOR THE REVENUE STABILIZATIONS FUND
(IN THOUSANDS)**

Years	Tax Revenue Required for Computation				Average Annual Percentage Change	Preceding Six Year Annual Average
	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals		
1997	4,728,088	432,298	1,826,761	6,987,147	8.74%	5.19%
1998	5,405,850	450,780	1,919,216	7,775,846	11.29%	6.29%
1999	6,087,888	420,421	2,065,265	8,573,574	10.26%	7.85%
2000	6,829,587	565,909	2,201,533	9,597,029	11.94%	8.04%
2001	7,226,407	363,757	2,272,954	9,863,118	2.77%	9.21%
2002	6,710,857	290,215	2,429,845	9,430,917	(4.38)%	8.50%
2003	6,775,799	343,319	2,335,959	9,455,077	0.26%	6.77%

**REQUIRED COMPUTATION OF MAXIMUM ALLOWED REVENUE
STABILIZATION FUND**

<u>Years</u>	<u>Amounts (In Thousands)</u>
2001	9,863,119
2002	9,430,917
2003	9,455,077

Average for Three Years \$9,583,038

Maximum Fund Allowed
(10% of Average) \$ 958,304

SCHEDULE OF FUNDING PROGRESS

	<u>Amounts (In Thousands)</u>
Total deposits to date	\$813,242
Interest earned through June 30, 2003	149,451
Total withdrawals to date	<u>(715,212)</u>
Total in Fund at June 30, 2003	<u>\$247,481</u>
Percentage of Maximum Fund	26%
Total available for withdrawal in fiscal year 2004:	<u>\$123,741</u>