



REVENUE STABILIZATION FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2023

Auditor of Public Accounts
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P.O. Box 1295
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October 31, 2023

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>
2021	\$23,444,713
2022	26,420,869
2023	27,354,844
Average for three years	\$25,740,142
Maximum fund allowed (15% of average)	\$ 3,861,021

CALCULATION OF CONSTITUTIONAL DEPOSIT

As of June 30, 2023, certified tax revenues increased by 3.53 percent between fiscal years 2022 and 2023, and the average revenue growth for the preceding six years was 7.74 percent. Under the provisions of the Revenue Stabilization Fund, the difference between last year's revenue growth and the average growth is **negative** 4.20 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 2023 tax collections. Exhibit 1 provides certified tax revenue amounts used in the calculation.

The certified tax revenues used in our calculation are based on fiscal year 2023 tax revenues increased 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. Since the rebate was based on fiscal year 2022 tax revenues, we decreased 2022 tax revenues by the estimated refunds in our fiscal

year 2022 calculations, 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). The Individual Income Tax Rebate was processed against fiscal year 2023 tax revenues in the Commonwealth's accounting system. Therefore, we increased fiscal year 2023 tax revenues by the estimated refunds since the impact of the refunds was already included in our fiscal year 2022 calculations.

In addition, fiscal year 2023 tax revenues have not been adjusted for the estimated \$906,800,000 transferred to the 2023 Individual Income Tax Rebate Fund established pursuant to Item 3-5.28 A. of Chapter 1 of the 2023 Acts of Assembly, Special Session I. This complies with Item 3-5.28 C., which states, for purposes of determining the amounts required to be deposited to the Revenue Stabilization Fund pursuant to Article X, Section 8, Constitution of Virginia, the certified amounts for fiscal year 2023 should include any amounts transferred from the general fund to the 2023 Individual Income Tax Rebate Fund that will be used to provide refunds.

Fiscal Year 2023 Activity and Pending Deposit

In June 2023, in accordance with Item 267 B. of Chapter 769, of the 2023 Acts of Assembly, a deposit of \$1,127,733,028 was made to the Revenue Stabilization Fund. The required deposit was based on actual collections during fiscal year 2021. There were no withdrawals from the Fund during the year. Exhibit 2 provides the funding progress of the Fund through June 30, 2023.

A deposit of \$904,652,425 is required to be made into the Fund for fiscal year 2024. This amount represents the minimum mandatory deposit related to actual tax collections during fiscal year 2022. 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 \$498,700,000 deposited to the Revenue Reserve Fund pursuant to Item 274 C.1 of Chapter 1, of the 2022 Acts of Assembly, Special Session I, in June 2022.

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 any 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 Revenue Stabilization Fund using forecasted revenue for fiscal year 2024 as shown in Exhibit 4. Based on the forecasted revenues for fiscal year 2024, there is no projected mandatory deposit for fiscal year 2026. Under certain circumstances,

there are statutory requirements for additional deposits; however, none of these conditions occur using the forecasted revenue for fiscal year 2024.

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 769, of the 2023 Acts of Assembly, there is no planned withdrawal from the Fund for the fiscal year ending June 30, 2024.

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

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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
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*	19,361,619	1,978,697	5,080,554	26,420,869	12.69%	5.85%
2023**	20,032,168	2,031,121	5,291,556	27,354,845	3.53%	7.74%

*The certified amounts for fiscal year 2022 Individual and Fiduciary Income Taxes are reduced by estimated refunds 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.

**The certified amounts for fiscal year 2023 Individual and Fiduciary Income Taxes are increased by estimated refunds 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, 2022	\$ 640,923
June 2023 mandatory deposit	1,127,733
Interest earned during fiscal year 2023	<u>13,349</u>
Balance as of June 30, 2023	<u>1,782,005</u>
Percentage of maximum fund allowed	46.2%
Required future mandatory deposits*	
Fiscal year 2024	904,652
Fiscal year 2025	<u>-</u>
Total fund including required deposits	<u>\$ 2,686,657</u>

*A fiscal year 2024 deposit is required based on fiscal year 2022 calculations, and a fiscal year 2025 deposit is not required based on fiscal year 2023 calculations.

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%	3.53%	No
Condition #2			
Current year growth exceeds 1.5 times the average revenue growth for the preceding six years	11.61%	3.53%	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%	(2.23%)	No
Required Statutory Deposit			No Deposit

*Calculated based on the general fund revenue estimate in Chapter 769 of the 2023 Acts of Assembly.

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 Revenues and the Virginia Economy for Fiscal Year 2023 as of August 23, 2023. See Appendix A for conditions triggering a mandatory or statutory deposit.

Projected Mandatory Deposit: Fiscal Year 2024 (Dollars in Thousands)

Corporate Income Tax	\$ 1,790,400
Individual and Fiduciary Income	19,080,900
State Sales and Use Taxes	<u>4,994,200</u>
Total Projected Certified Tax Revenue	<u>\$25,865,500</u>
Annual Percentage Change	(5.44%)
Preceding Six-Year Annual Average	<u>7.71%</u>
Difference	<u>(13.16%)</u>
Required Mandatory Deposit	No Deposit

Exhibit 4
(continued)

Projected Statutory Deposit: Fiscal Year 2024

	Required	Projected	Condition met?
Condition #1			
Growth of certified tax revenues collected in most recently ended fiscal year	8.00%	(5.44%)	No
Condition #2			
Current year growth exceeds 1.5 times the average revenue growth for the preceding six years	11.57%	(5.44%)	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%	2.20%	No
Required Statutory Deposit			No Deposit

*Calculated based on official general fund revenue estimate in Chapter 769 of the 2023 Acts of Assembly.

Exhibit 5

REVENUE STABILIZATION FUND BALANCE FISCAL YEARS 2009 – 2023 (Dollars in Thousands)

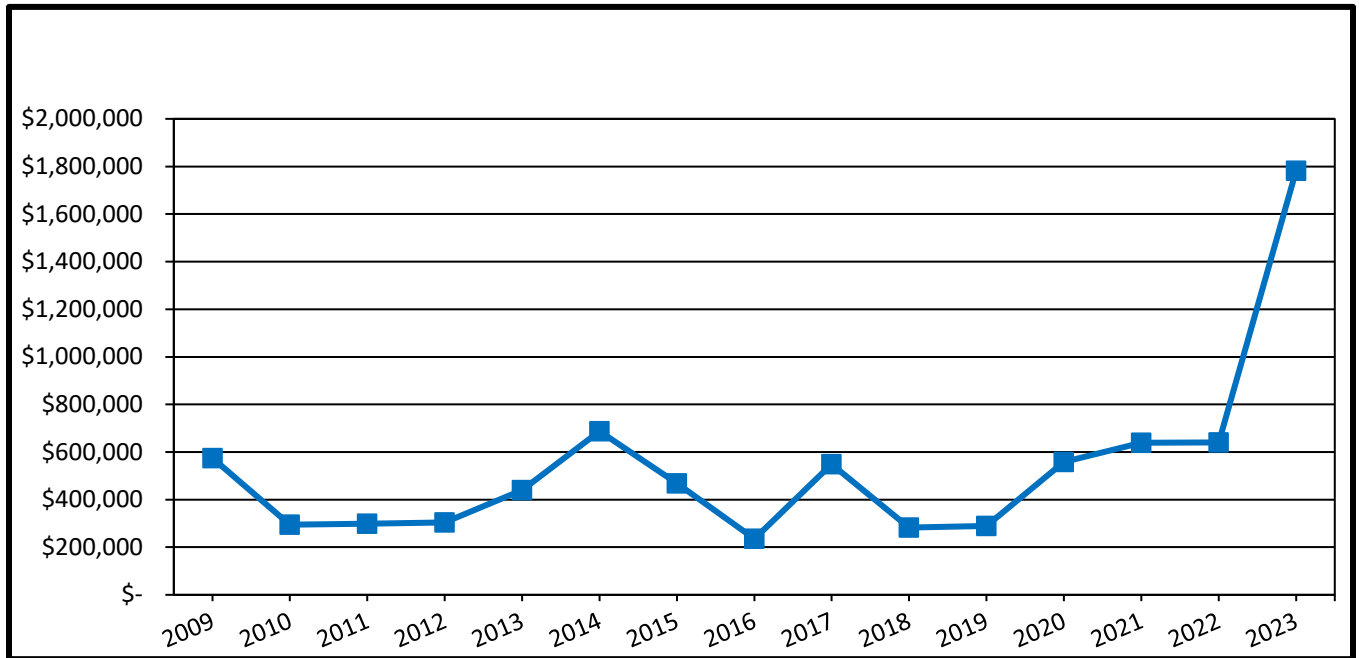


Exhibit 6

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	-
June 2022	-	-
June 2023	1,127,733	-

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.

Item 267 A. of Chapter 769, of the 2023 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 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 769, of the 2023 Acts of Assembly 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. The Secretary's report dated September 1, 2022, entitled "Recommendations Regarding the Revenue Stabilization Fund and the Revenue Reserve Fund" included several recommendations. Several bills were introduced during the 2023 session of the General Assembly to adjust the Revenue Stabilization Fund and Revenue Reserve Fund requirements, however, none of the bills passed.