



Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295

Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 1, 2004

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.

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. The provisions of this change were effective July 1, 2003, and have been included as part of the fiscal year 2004 calculation. The conditions are as follows:

1. a growth of the certified tax revenues collected in the most recently ended fiscal year of 8 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 5 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.

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.

CALCULATION OF MANDATORY DEPOSIT

Certified tax revenues increased by 10.5 percent between fiscal years 2003 and 2004, and the average revenue growth for the preceding six years was 5.36 percent. Under provisions of the Revenue Stabilization Fund, the comparison of last year's revenue growth and the average growth is 5.14 percent.

As a result, the General Assembly would have had to make a deposit of \$268,936,113 related to fiscal year 2004 tax collections; however, in June 2004, in accordance with Item 278.10 of Chapter 943 of the Virginia Acts of Assembly, there was an \$87,000,000 prepayment of the required deposit into the Revenue Stabilization Fund. Therefore, the General Assembly will need to make a mandatory deposit of the remaining balance of \$181,936,113 during the fiscal year ending June 30, 2006.

The amounts contained in this certification differ from the mandatory deposit reflected in the Comptroller's General Fund Preliminary Annual Report for the fiscal year ended June 30, 2004, which was released in August 2004.

Future Calculations

As a result of changes in the tax structure enacted by the 2004 General Assembly there have been both increases and decreases in the taxes used to perform the calculation of the mandatory deposit into the Revenue Stabilization Fund. The Virginia Constitution permits the exclusion, in whole or in part, of the growth in tax revenues resulting from increases in tax rates or the repeal of exemptions from the computation of the mandatory deposit for a period up to six years after the effective year of the change. Therefore, in the future we will calculate the mandatory deposit under two alternatives: including and excluding tax increases and exemption repeals.

CALCULATION OF ADDITIONAL DEPOSIT

Section 2.2-1829 of the Code of Virginia, as discussed above, requires an additional calculation beginning in fiscal year 2004 to determine the deposits to the Revenue Stabilization Fund. Certified tax revenues increased by 10.5 percent between fiscal years 2003 and 2004 and the average revenue growth for the preceding six years multiplied by 1.5 was 8.03 percent. However, the increase for the most recent available estimate of general fund revenues for fiscal year 2005 is

3.66 percent, which is less than the 5 percent increase required by the Code of Virginia and therefore it does not appear there is a need for an additional deposit.

Should the Governor revise the revenue forecast above 5 percent after the date of this letter, this change could lead to the need for an additional deposit in the amount of \$134,468,056. As of the date of this letter, the Governor has indicated that it is his intention to make an additional deposit and has designated an amount of \$113,012,530 in the Comptroller's General Fund Preliminary Annual Report for the fiscal year ended June 30, 2004.

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

AUDITOR OF PUBLIC ACCOUNTS

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Enclosure

**CALCULATIONS FOR THE REVENUE STABILIZATION 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		
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%
2004	7,430,870	434,493	2,582,797	10,448,160	10.50%	5.36%

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

<u>Years</u>	<u>Amounts (In Thousands)</u>
2002	\$ 9,430,917
2003	9,455,077
2004	10,448,160
Average for Three Years	\$ 9,778,051
Maximum Fund Allowed (10% of Average)	\$ 977,805

SCHEDULE OF FUNDING PROGRESS

	<u>Amounts (In Thousands)</u>
Total deposits to date	\$900,242
Interest earned through June 30, 2004	155,037
Total withdrawals to date	<u>(715,212)</u>
Total in Fund at June 30, 2004	\$340,067
Percentage of Maximum Fund	35%
Required future deposits:	
June 2006 Constitutional deposit	268,936
Less June 2004 prepayment	<u>(87,000)</u>
Required mandatory deposit	181,936
Governor's recommended additional deposit	<u>113,013</u>
Total committed to date	<u>\$635,016</u>