Revenue Stabilization Fund

APA
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COMMONWEALTH OF VIRGINIA

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Background

- JLARC study in 1990 recommended the General Assembly establish the fund as a strategy to cope with periodic revenue shortfalls
- Study recommended a constitutional amendment to ensure the fund would be a permanent part of the fiscal process

Background

- Legislation establishing fund and proposing Constitutional amendment passed in the 1992 session
- Voters approved the Constitutional amendment in November 1992
- Established by Article X, Section 8 of the Virginia Constitution and § 2.2-1828 of the <u>Code of Virginia</u>

Background

- Constitution established rules for:
  - Deposits
  - Withdrawals
  - Maximum Fund Allowed

- Fund can only be used when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts

Calculations

- Uses the same three primary revenue streams as the Constitutional debt limit
  - Individual and Fiduciary Income Tax
  - Corporate Income Tax
  - State Sales and Use Tax

Deposits

- Mandatory (Constitutional)
- Statutory (additional deposit required by the Code of Virginia)
- Discretionary
  - The General Assembly may appropriate money to the fund as long as the total amount in the fund is below the maximum fund allowed threshold

Example – Mandatory Deposit Calculation for Fiscal Year 2007

Certified Tax Revenues	$13,941,647,288
Average Annual Percentage Change	5.92%
Preceding Six Year Annual Average Change	5.62%

$13,941,647,288 X 50% X 0.30% = Mandatory Deposit

See Appendix (slide numbers 20 and 21) for deposit requirements.

Timing of Deposits

- Deposits must be made within two years of the fiscal year for which the calculation is performed
- For example, the deposit for the fiscal year 2007 revenue must be made by the end of fiscal year 2009
- One year delay allows time to incorporate the deposit into budget process

Mandatory Deposit – Changes in Tax Structure

- The 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 exemption from the computation of the mandatory deposit for a period up to six years after the change

Statutory Deposit

- The General Assembly passed legislation during the 2003 session requiring an additional deposit if certain conditions exist (§ 2-2-1829 of the <u>Code of Virginia)</u>
- Statutory deposit has only been triggered once (related to fiscal year 2006 revenues)
- See Appendix (slide numbers 22 and 23 for deposit requirements)

Withdrawal Calculation

- Determine shortfall
  - General fund revenues appropriated exceed the revised general fund forecast
- The shortfall must be greater than two percent of certified tax revenues

Withdrawal Limits

- Limits withdrawal to no more than one-half of the difference between the total general fund revenues appropriated and a revised general fund revenue forecast during a regular or special legislative session
- Limits withdrawal to no more than one-half of the balance of the fund

Example – Withdrawal Calculation

General Fund Revenues Appropriated for Fiscal Year 2008 (per Chapter 847)	$17,641,285,296
Revised General Fund Forecast (HB29)	$17,118,999,140
• Calculated Shortfall	$522,286,156
2% of Certified Tax Revenues ($13,941,647,288) for Fiscal Year 2007	$278,832,946
½ of Calculated Shortfall	$261,143,078
½ of Balance in Fund	$594,917,209

Prior Withdrawals

- Two withdrawals have occurred since inception:
  - $467,730,875 in April 2002
  - $247,481,034 in June 2003

Maximum Fund Allowed

- The amount in the fund cannot exceed 10 percent of the average annual certified tax revenues for the three most recent fiscal years
- Cannot make deposits into the fund in excess of the maximum fund allowed
- Interest is allowed to accumulate in the fund during year and any excess is transferred to the general fund at year-end
- Maximum fund allowed for fiscal year 2008 is $1,304,679,848

Funding Progress

- Balance in the fund as of June 30, 2007 was $1,189,834,417
- Transferred $34,189,251 in interest earnings in fiscal year 2007 to the General Fund
- Pending Deposits
  - $114,845,430 due in fiscal year 2008 related to fiscal year 2006 certified tax revenues
  - $21,320,527 due in fiscal year 2009 related to fiscal year 2007 certified tax revenues

APA Annual Reporting Requirements

We are required to report by November 1st of each year:

- Certified tax revenues for the calculation
- Maximum fund allowed
- Amount of mandatory deposit required

Reports are available at http://www.apa.virginia.gov/reports.htm

Questions?

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Appendix

Mandatory and Statutory Deposit Requirements

Conditions for Mandatory Deposit

- Required when the annual percentage change in certified tax revenues for the current year exceeds the average annual percentage change in certified tax revenues for the previous six years

Mandatory Deposit Calculation

- Mandatory deposit equals 50 percent of certified tax revenues for most recently ended fiscal year multiplied by the difference between annual percentage increase and average annual percentage increase in certified tax revenues for the previous six years

Conditions for Statutory Deposit

- Growth of certified tax revenues of least 8 percent over previous fiscal year certified tax revenues
- Growth of certified greater than 1.5 times average percentage increase in certified tax revenue collected in the previous six years
- Estimate of general fund revenues is at least 5 percent greater than actual general fund revenues for the immediately preceding fiscal year

Statutory Deposit Calculation

- If the conditions exist, the Governor must include in his budget recommendations a deposit of at least 25 percent of certified tax revenues for most recently ended fiscal year multiplied by the difference between annual percentage increase in certified tax revenues and the average annual percentage increase in certified tax revenues for the previous six years