

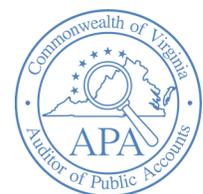


REVENUE RESERVE FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2020

Auditor of Public Accounts
Martha S. Mavredes, CPA

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





Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 28, 2020

Dear General Assembly Member:

REVENUE RESERVE FUND

This Office is providing a report of the required calculations for the Revenue Reserve Fund pursuant to § 2.2-1831.3 of the Code of Virginia. 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>
2018	\$18,794,912
2019	19,718,337
2020	20,476,114
Average for three years	19,663,121
Maximum combined funds allowed (15% of average)	2,949,468
June 2020 balance of Revenue Stabilization Fund	<u>558,432</u>
Maximum Revenue Reserve Fund allowed	2,391,036
June 2020 balance of Revenue Reserve Fund	<u>513,245</u>
Maximum fund allowed less current Revenue Reserve Fund balance	<u>\$ 1,877,791</u>

The Revenue Reserve Fund in combination with the Revenue Stabilization Fund may not exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts for the previous three fiscal years. As shown above, the balance of the Revenue Reserve Fund as of June 30, 2020, does not exceed the maximum fund allowed.

CALCULATION OF DEPOSIT

A deposit to the Revenue Reserve Fund is required in years in which general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund and general fund revenue exceeds the official revenue forecast of the prior fiscal year. Certified tax revenues for fiscal year 2020 resulted in a negative difference between last year's revenue growth and the average growth; therefore, a mandatory deposit to the Revenue Stabilization Fund is not required in fiscal year 2022. Further, there is no required deposit to the Revenue Reserve Fund, as actual general fund revenue was less than the official revenue forecast as included in Chapter 1283 of the 2020 Acts of Assembly.

CALCULATION OF REVENUE RESERVE FUND DEPOSIT (Dollars in Thousands)

Actual General Fund Revenue as of June 30, 2020*	\$21,737,777
Fiscal Year 2020 Official General Fund Revenue Estimate	<u>21,972,000</u>
Difference between actual General Fund Revenues and Official General Fund Revenue Estimate	<u>\$ (234,223)</u>

No deposit required to the Revenue Reserve Fund

*Actual General Fund Revenue obtained from the Commonwealth of Virginia Summary Report on General Fund Revenue Collections for the Fiscal Years 2019 and 2020.

Fiscal Year 2020 Activity

In accordance with Item 266 of Chapter 1283 of the 2020 Acts of Assembly, there was no deposit to the Revenue Reserve Fund during fiscal year 2020. There have been no withdrawals from the fund since its establishment in fiscal year 2018. Exhibit 1 provides the funding progress of the Fund through June 30, 2020.

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

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

Enclosures

LDJ: clj

Exhibit 1

SCHEDULE OF FUNDING PROGRESS (Dollars in Thousands)

	<u>Amounts</u>
Chapter 1, 2018 Acts of Assembly deposit	\$156,395
Interest earned during fiscal year 2018	<u>44</u>
Balance as of June 30, 2018	<u>156,439</u>
Chapter 854, 2019 Acts of Assembly deposit	342,728
Interest earned during fiscal year 2019	<u>3,423</u>
Balance as of June 30, 2019	<u>502,590</u>
Interest earned during fiscal year 2020	<u>10,655</u>
Balance as of June 30, 2020*	<u>\$513,245</u>
Current balance as a percentage of maximum fund allowed	21.5%

Future deposits

*Currently there are no planned deposits to the fund for fiscal year 2021
per Chapter 1289 of the 2020 Acts of Assembly*

*The planned voluntary deposit for fiscal year 2020 per Chapter 854 of the 2019 Acts of Assembly did not occur pursuant to changes reflected in Chapter 1283 of the 2020 Acts of Assembly.

Exhibit 2

PROJECTED REVENUE RESERVE FUND BALANCE COMPARED TO MAXIMUM FUND ALLOWED (Dollars in Thousands)

We performed fiscal year 2021 projected calculations using the maximum combined funds allowed as of June 30, 2020. There will be a new maximum combined funds allowed calculation in future years based on future certified tax revenues.

Maximum combined funds allowed as of June 30, 2020	\$ 2,949,468
Less: Projected balance of Revenue Stabilization Fund*	<u>635,842</u>
Projected maximum Revenue Reserve Fund allowed	2,313,626
Less: Projected balance of Revenue Reserve Fund**	<u>513,245</u>
Projected difference between Revenue Reserve Fund balance and maximum Revenue Reserve Fund allowed	<u>\$1,800,381</u>
Projected percentage of maximum Revenue Reserve Fund allowed	22%

*The projected Revenue Stabilization Fund Balance as included within the [2020 Revenue Stabilization Fund Certification Letter](#), Exhibit 2. The projected balance does not include projected interest earnings.

**The projected balance of the Revenue Reserve Fund does not include projected interest earnings.

APPENDIX A

ESTABLISHMENT AND REQUIREMENTS OF THE FUND

Code of Virginia § 2.2-1831.2 establishes the special non-reverting fund known as the Revenue Reserve Fund. All funds received on its behalf shall be paid into the state treasury and credited to the Fund. Interest earned on moneys in the Fund will remain in the Fund. At the end of each fiscal year the Fund does not revert to the general fund. The Governor and General Assembly can use the fund to offset certain anticipated shortfalls in revenues when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts.

The General Assembly established the fund during the 2018 session and, subsequently, appropriated amounts for deposit into the fund in fiscal years 2018 and 2019. Pursuant to Code of Virginia § 2.2-1831.3, on November 1 of each year, the Auditor of Public Accounts is required to report on the amount that can be paid into the Fund and the amount by which the amount in the fund is less than the maximum amount permitted.

Deposits to the Fund

Pursuant to Code of Virginia § 2.2-1831.3, in fiscal years in which general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund as required by Article X, Section 8 of the Constitution of Virginia, the Comptroller, at the end of the fiscal year, will commit within his annual report, the amount of general fund revenue in excess of the official forecast for that prior fiscal year, less any deposit to the Virginia Water Quality Improvement Fund, for deposit into the Revenue Reserve Fund. The amount committed for deposit into the Revenue Reserve Fund shall not exceed one percent of the total general fund revenues for the prior fiscal year. Subsequently, the Governor will recommend appropriations from the general fund or amend current general fund appropriations to include an amount for deposit into the Revenue Reserve Fund at least equal to the amounts committed by the Comptroller and confirmed by the Auditor of Public Accounts.

Maximum Fund Allowed

Code of Virginia § 2.2-1831.3 requires the combined amount in the Revenue Reserve Fund and the Revenue Stabilization Fund to not exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts for the previous three fiscal years.

Withdrawals from the Fund

Code of Virginia § 2.2-1831.4 describes the circumstances under which withdrawals from the Fund may occur. In the event that a revised general fund forecast presented to the General Assembly reflects a decline when compared with total general fund revenues appropriated, and the decrease is two percent or less of general fund resources collected in the most recently ended fiscal year, the General Assembly may appropriate an amount for transfer from the Fund, not to exceed 50 percent of the amount in the Fund, to the general fund to stabilize the revenues of the Commonwealth. Additionally, when the General Assembly is not in session, after review of the May general fund revenue collections, the Governor may withdraw amounts appropriated to the Fund when actions to curtail spending is insufficient to avoid a cash deficit.