



REVENUE RESERVE FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2022

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

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P.O. Box 1295
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October 31, 2022

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>
2020	\$20,476,114
2021	23,444,713
2022*	26,420,869
Average for three years	23,447,232
Maximum combined funds allowed (20% of average)	4,689,446
June 2022 balance of Revenue Stabilization Fund	<u>640,923</u>
Maximum Revenue Reserve Fund allowed	4,048,523
June 2022 balance of Revenue Reserve Fund**	<u>2,006,270</u>
Maximum fund allowed less current Revenue Reserve Fund balance	<u>\$ 2,042,253</u>

*The certified amounts for fiscal year 2022 are reduced by estimated refunds due for the Individual Income Tax Rebates 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 balance of the Revenue Reserve Fund includes the \$498,700 (dollars in thousands) advance reservation for the Revenue Stabilization Fund required per Item 274 C.1. of Chapter 1 of the 2022 Acts of Assembly, Special Session I.

The Revenue Reserve Fund in combination with the Revenue Stabilization Fund may not exceed 20 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. This is a change from the 15 percent maximum that was effective during fiscal year 2022 as a result of Item 274 D. of Chapter 1, of the 2022 Acts of Assembly, Special Session I. As shown above, the balance of the Revenue Reserve Fund as of June 30, 2022, 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. Certified tax revenues for fiscal year 2022 resulted in a positive difference between last year's revenue growth and the average growth; therefore, a mandatory deposit to the Revenue Stabilization Fund is required in fiscal year 2024. As a result, no deposit to the Revenue Reserve Fund is required based on certified tax revenues for fiscal year 2022.

Fiscal Year 2022 Activity

In accordance with Item 275 of Chapter 1, of the 2022 Acts of Assembly, Special Session I, there was a voluntary deposit of \$650,000,000 to the Revenue Reserve Fund during fiscal year 2022. Further, pursuant to Item 274 C. of Chapter 1, of the 2022 Acts of Assembly, Special Session I, the Comptroller deposited \$498,700,000 to the Revenue Reserve Fund as an advance reservation of the required 2024 deposit to the Revenue Stabilization Fund attributable to actual tax collections for fiscal year 2022. This advance reservation is included in the June 2022 Revenue Reserve Fund balance and is included as part of the planned deposit during fiscal year 2024 to the Revenue Stabilization Fund in Exhibit 2 below. There have been no withdrawals from the Revenue Reserve Fund since its establishment in fiscal year 2018. Exhibit 1 provides the funding progress of the Revenue Reserve Fund through June 30, 2022.

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

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>
Chapter 552, 2021 Acts of Assembly, Special Session I, deposit	339,028
Interest earned during fiscal year 2021	<u>3,517</u>
Balance as of June 30, 2021	<u>855,790</u>
Chapter 1, 2022 Acts of Assembly, Special Session I, voluntary deposit	650,000
Chapter 1, 2022 Acts of Assembly, Special Session I, advance reservation for Revenue Stabilization Fund	498,700
Interest earned during fiscal year 2022	<u>1,780</u>
Balance as of June 30, 2022	<u>\$ 2,006,270</u>
Current balance as a percentage of maximum fund allowed	49.6%

Future Deposits

Currently, there are no planned deposits to the fund for fiscal year 2023 per Chapter 2 of the 2022 Acts of Assembly, Special Session 1.

Exhibit 2

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

We performed our calculations using the maximum combined funds allowed as of June 30, 2022. 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, 2022*	\$ 4,689,446
Less: Balance as of June 30, 2022	
Revenue Stabilization Fund	640,923
Revenue Reserve Fund	<u>2,006,270</u>
Remaining maximum combined funds allowed as of June 30, 2023*	2,042,253
Less: Planned deposit(s) during fiscal year 2023**	
Revenue Stabilization Fund	1,127,733
Revenue Reserve Fund	<u>-</u>
Remaining maximum combined funds allowed as of June 30, 2024*	914,520
Less: Planned deposit(s) during fiscal year 2024**	
Revenue Stabilization Fund (required)***	405,952
Revenue Reserve Fund	<u>-</u>
Difference between the combined fund balance and maximum fund balance allowed as of June 30, 2024****	<u>\$ 508,568</u>
Percentage of maximum combined fund balance allowed	89%

*Fund maximum calculated based on the average annual income and retail sales tax revenues for fiscal years 2020, 2021, and 2022.

**Planned deposits do not include projected interest earnings.

***The deposit is the net of the mandatory deposit of \$904,652 and the advance reservation of \$498,700 for the Revenue Stabilization Fund required per Item 274 C. of Chapter 1 of the 2022 Acts of Assembly, Special Session I that is currently in the Revenue Reserve Fund.

****There will be a new maximum fund allowed calculation prior to the required deposit to the Revenue Stabilization Fund in fiscal year 2024 using the certified tax revenue collected in the three preceding fiscal years.

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, 2019, 2021, and 2022. 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 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. Item 274 D. of Chapter 1, of the 2022 Acts of Assembly, Special Session I increased the maximum fund allowed for the combined amount in the Revenue Reserve Fund and the Revenue Stabilization Fund to 20 percent.

Withdrawals from the Fund

Code of Virginia § 2.2-1831.4 describes the circumstances under which withdrawals from the Revenue Reserve 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.

POTENTIAL FUTURE CHANGES

Item 267 C.2 of Chapter 2, of the 2022 Acts of Assembly, Special Session I 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. In the Secretary's report dated September 1, 2022, entitled "Recommendations Regarding the Revenue Stabilization Fund and the Revenue Reserve Fund," the Secretary recommended reverting the 20 percent combined maximum back to 15 percent. Additionally, the Secretary recommended modifying or removing the requirement of the additional statutory deposit required by Section 2.2-1829 of the Code of Virginia, encouraging the use of the Revenue Reserve Fund as a vehicle to accumulate the reserves to protect against unforeseen revenue downturns. Finally, the Secretary recommended creating a workgroup to consider potential constitutional adjustments to the calculation of the Revenue Stabilization Fund to simplify and bring greater transparency to the process. The Governor and General Assembly will consider these recommendations during the 2023 General Assembly session.