



REVENUE RESERVE 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 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>
2021	\$ 23,444,713
2022	26,420,869
2023	27,354,844
Average for three years	25,740,142
Maximum combined funds allowed (20% of average)	5,148,028
June 2023 balance of Revenue Stabilization Fund	<u>1,782,005</u>
Maximum Revenue Reserve Fund allowed	3,366,023
June 2023 balance of Revenue Reserve Fund*	<u>2,044,472</u>
Maximum fund allowed less current Revenue Reserve Fund balance	<u>\$ 1,321,551</u>

*The balance of the Revenue Reserve Fund includes the \$498,700 (dollars in thousands) advance reservation for the Revenue Stabilization Fund required per Chapter 1 Item 274 C.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. As shown above, the balance of the Revenue Reserve Fund as of June 30, 2023, 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 2023 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 2025. However, there is a required deposit to the Revenue Reserve Fund for fiscal year 2025, as actual general fund revenue was more than the official revenue forecast as included in Chapter 769 of the 2023 Acts of Assembly.

CALCULATION OF REVENUE RESERVE FUND DEPOSIT (Dollars in Thousands)

Actual General Fund Revenue as of June 30, 2023*	\$ 27,909,932
Fiscal Year 2023 Official General Fund Revenue Estimate	<u>24,871,136</u>
Difference between actual General Fund Revenues and Official General Fund Revenue Estimate	3,038,796
Required Deposit to Virginia Water Quality Improvement Fund 2025**	(408,741)
Individual Income Tax Rebate***	<u>1,048,612</u>
Maximum Allowed Deposit	<u>\$ 3,678,667</u>
Required 2025 Deposit (1% of General Fund Revenue)	\$ 289,585

*Actual General Fund Revenue obtained from the Commonwealth of Virginia Summary Report on General Fund Revenue Collections for the fiscal years 2022 and 2023.

**A fiscal year 2025 deposit is required based on fiscal year 2023 calculations.

***The actual general fund revenues 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 when calculating the maximum allowed deposit.

The general fund revenues used in our calculation are based on fiscal year 2023 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 general fund revenues by the estimated refunds in our fiscal year 2022 calculations, consistent with the methodology used in our [Revenue Reserve 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 general fund revenues in the Commonwealth's accounting system. Therefore, we increased fiscal year 2023 general fund revenues by the estimated refunds since the impact of the refunds was already included in our fiscal year 2022 calculations.

The 2023 general fund 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 D., which states, for the purposes of determining the amounts required to be deposited to the Revenue Reserve Fund pursuant to § 2.2-1831.3, Code of Virginia, and the amounts required to be deposited to the Water Quality Improvement Fund pursuant to § 10.1-2128, Code of Virginia, for fiscal year 2023, general fund revenue collections shall include any amounts transferred to the 2023 Individual Income Tax Rebate Fund that will be used to provide refunds.

Fiscal Year 2023 Activity

There was no required deposit to the Revenue Reserve Fund during fiscal year 2023. 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, 2023. Exhibit 3 provides historical information of the deposits and withdrawals of the Revenue Reserve Fund through June 30, 2023.

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

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

Enclosures

DBC: clj

Exhibit 1

SCHEDULE OF FUNDING PROGRESS (Dollars in Thousands)

Balance as of June 30, 2022	\$ 2,006,270
Interest earned during fiscal year 2023	<u>38,202</u>
Balance as of June 30, 2023	<u>\$ 2,044,472</u>
Percentage of maximum fund allowed	60.7%
Required future deposits*	
Fiscal year 2024	-
Fiscal year 2025	<u>289,585</u>
Required future withdrawal**	
Fiscal year 2024	<u>(498,700)</u>
Total fund including required future deposits and withdrawals	<u>\$ 1,835,357</u>

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

**A fiscal year 2024 withdrawal is required per Chapter 769 Item 267 D.2. This amount was provided in Chapter 1, 2022 Acts of Assembly, Special Session I, as an advanced reservation for the mandatory deposit to the Revenue Stabilization Fund required in fiscal year 2024.

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, 2023. 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, 2023*	\$ 5,148,028
Less: Balance as of June 30, 2023	
Revenue Stabilization Fund	1,782,005
Revenue Reserve Fund	<u>2,044,472</u>
Remaining maximum combined funds allowed as of June 30, 2024	1,321,551
Less: Planned deposit(s) during fiscal year 2024**	
Revenue Stabilization Fund***	405,952
Revenue Reserve Fund	<u>-</u>
Remaining maximum combined funds allowed as of June 30, 2025	915,599
Less: Planned deposit(s) during fiscal year 2025**	
Revenue Stabilization Fund	-
Revenue Reserve Fund	<u>289,585</u>
Difference between the combined fund balance and maximum fund balance allowed as of June 30, 2025****	<u>\$ 626,014</u>
Percentage of maximum combined fund balance allowed	88%

*Fund maximum calculated based on the average annual income and retail sales tax revenues for fiscal years 2021, 2022, and 2023.

**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.1 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 Reserve Fund in fiscal year 2025 using the certified tax revenue collected in the three preceding fiscal years.

Exhibit 3

SCHEDULE OF DEPOSITS AND WITHDRAWALS (Dollars in Thousands)

<u>Date</u>	<u>Amount of Deposit</u>	<u>Amount of Withdrawal</u>
June 2018	\$ 156,395	\$ -
June 2019	342,728	-
June 2020	-	-
June 2021	339,028	-
June 2022	650,000	-
June 2022	498,700	-
June 2023	-	-

Exhibit 4

SCHEDULE OF COMBINED FUND BALANCES (Dollars in Thousands)

<u>Fiscal Year End</u>	<u>Revenue Stabilization</u>	<u>Revenue Reserve</u>	<u>Total</u>	<u>Combined Fund Balance Limit</u>
June 30, 2018	\$ 283,275	\$ 156,439	\$ 439,714	\$ -
June 30, 2019	289,302	502,590	791,892	2,805,705
June 30, 2020	558,432	513,245	1,071,677	2,949,468
June 30, 2021	639,612	855,790	1,495,402	3,181,958
June 30, 2022	640,923	2,006,270	2,647,193	4,689,446
June 30, 2023	1,782,005	2,044,472	3,826,477	5,148,028

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 267 C.1. of Chapter 769, of the 2023 Acts of Assembly, 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 are insufficient to avoid a cash deficit.

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, however, none of the bills passed.